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AZ CORP COMMISSION  
DOCKET CONTROL

Transcript Exhibit(s)

Docket #(s): W-02060A-12-0356

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Exhibit #: A1-A5, S1-S6

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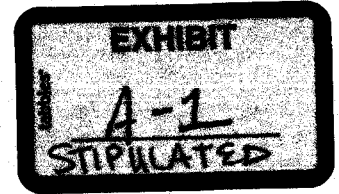
Arizona Corporation Commission

DOCKETED

JUL 22 2013

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**CORDES LAKES WATER COMPANY  
RATE INCREASE  
W-02060A-12-0356**



|    | Application  |
|----|--|
| 1. | Additions to Rate Increase Application (8/6/12)                |
| 2. | Additions and Revisions to Rate Increase Application (9/24/12) |
| 3. | Additions to Rate Increase Application (11/8/12)               |

NEW APPLICATION

ORIGINAL

CORDES LAKES WATER COMPANY -U-2060  
NOTES

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ARIZONA CORPORATION COMMISSION  
DOCKET CONTROL

W-02060A-12-0356

Cordes Lakes Water Company last received a rate increase on March 1, 2008, based upon test year data for 2006. At the time that the increase data was submitted for consideration the economy was very strong and the increase granted was based upon the revenue of new lot development fees and on turnover fees. Since 2008, moves have been very slow and in 2011, no meters were installed.

The decision for the last increase required the Company to investigate methods of reducing water loss from leaks and old water meters. While we continue to look for and repair leaks, we have not had the finances to make a major effort to reduce leaks. We are proposing the approval of enough funds to run the system and additional funds to hire a leak detection company.

The leaks at Cordes Lakes are found to be in pipe installed before 1974. The pipe carries a pressure rating of CI125 which was approved by the ADEQ and Commission at that time.

We are proposing an approximate increase of 20% to cover the cost of operating the system without the need to advance monies from outside sources.

Arizona Corporation Commission

DOCKETED

AUG -6 2012

|             |           |
|-------------|-----------|
| DOCKETED BY |           |
| <i>km</i>   | <i>NR</i> |

CORDES LAKES WATER COMPANY

DOCKET U-2060

CERTIFICATE FROM ARIZONA DEPT OF REVENUE

MAPS RECEIPT FOR 2011

ADEQ COMPLIANCE LETTER

SAMPLE BILL



# Certificate of Compliance Letter of Good Standing

## Cordes Lakes Water Co.

This Certificate of Compliance is issued pursuant to Arizona Revised Statutes Section 42-1110 and/or Section 43-1151. It certifies that, according to department records, the above named taxpayer has filed and paid all taxes due under Title 42 and Title 43, specifically and only as to the following described tax types and identification/license numbers:

### TAX TYPE

Federal Employer Identification Number  
Transaction Privilege Tax License  
Withholding License

### IDENTIFICATION

86-0289532  
13-008635-5  
86-028953-2

This certification is made conditionally and is subject to the findings of any subsequent audit.

Issued To:

Cordes Lakes Water Co.  
Attn: Neil Folkman  
PO Box 219  
Tempe, AZ 85280

Christina Canisales  
Revenue Auditor II 602-716-6234  
July 2, 2012  
www.AZDOR.gov

Docket U-2060

Docket U-2060

2013 PUBLIC WATER INFORMATION UPDATE CARD  
A.A.C. R 18-4-303(B)

PWS ID NUMBER : AZ 04 13023 (Please Print)  
PWS Name: Cordes Lakes Water Company  
PWS Legal Owners Name :  
Legal Owners Phone : 480-966-5804 Fax: 480-967-7857  
Legal Owners Mailing Address PO Box 219  
Tempe, AZ 85280  
Certified Operators Name: Don Ross Cert. Op # 05277  
Number of Service Connections: 1288  
Population Served: (# of persons regularly served by the water system )  
☐ 0 ☒ 2417 (estimated)  
Non-residential population Full-time Residents ( 12 months / yr)  
Or part time residents (6-11 months/ yr)

Name of person completing this card (print):

Bradley Folkman

Title: Treas

Phone: 480-966-5804

Signature: [Signature]

Questions: Please Call 1(800) 234 - 5677, ext. 771 - 4518

Docket U-2020

Janice K. Brewer  
GovernorARIZONA DEPARTMENT  
OF  
ENVIRONMENTAL QUALITY1110 West Washington Street • Phoenix, Arizona 85007  
(602) 771-2300 • www.azdeq.govHenry R. Darwin  
Director

November 21, 2011

Cordes Lakes Water Company  
Attn: Neil Folkman  
P.O. Box 219  
Tempe, AZ 85280RE: Inspection Results for Cordes Lakes Water Company  
Public Water System (PWS) AZ0413023  
ICE Database Inspection Identification Number 179862

Dear Mr. Folkman:

The Water Quality-Utility Field Services Unit (WQUFSU) of the Arizona Department of Environmental Quality (ADEQ) has enclosed an inspection report regarding the inspection conducted at the above referenced facility on October 17, 2011. The inspection was conducted to determine compliance with Arizona Revised Statute (A.R.S.) §49-351 et seq. and Arizona Administrative Codes A.A.C. R18-4-101 et. seq and A.A.C. R18-5-101 et seq.

No significant deficiencies were noted during the course of the inspection. No ADEQ action will result from this inspection.

If you have any questions regarding this letter, or if I can be of any assistance, please feel free to contact me at (602) 771-4785 or 1-800-234-5677.

Sincerely,

Steve Camp  
Environmental Engineering Specialist  
Utility Field Services Unitcc: Cordes Lakes Water Company, 20175 E. Stagecoach Rd Mayer, AZ 86333  
Ex # 48512-130Southern Regional Office  
400 West Congress Street • Suite 433 • Tucson, AZ 85701  
(520) 628-6733

Printed on recycled paper

Cordes Lakes Water Company  
November 21, 2011  
Page 2 of 8

Docket U-2060

ARIZONA DEPARTMENT OF ENVIRONMENTAL QUALITY  
WATER QUALITY DIVISION - COMPLIANCE SECTION  
UTILITY FIELD SERVICES UNIT  
INSPECTION REPORT-DRINKING WATER

**INSPECTION REPORT**

|  |                                |
|--|--------------------------------|
| Facility: Cordes Lakes Water Company   | System # 13-023                |
| Inspected By: Steve Camp               | Date: October 17, 2011         |
| Accompanied By: Donald Ross, Dick Ross | County: Yavapai                |
| Recommendations By: Steve Camp         | Report Date: November 21, 2011 |
| Number of Plants: 4                    | Wells: 4                       |
| Population: 3000                       | Service Connections: 1450      |

The system is in compliance with the following ADEQ requirements:

|    |   | <u>YES</u> | <u>NO</u> | <u>N/A</u> | <u>UNKNOWN</u> |
|----|---|------------|-----------|------------|----------------|
| 1. | A certified operator is employed by the owner per ADEQ regulations.                           | X          |           |            |                |
| 2. | The system meets ADEQ monitoring and reporting requirements.                                  | X          |           |            |                |
| 3. | This system meets ADEQ requirements for operation and maintenance of the physical facilities. | X          |           |            |                |

**Inspection Purpose and Scope:**

This was an inspection to determine compliance with Arizona Administrative Code (A.C.C.) R18-4-101 et seq.

**Facility Description:**

This is a community water system and serves a subdivision in Cordes Junction. The system consists of four wells, six booster stations, and four active storage tanks.

**Inspector Comments:**

Donald Ross, operator of the Cordes Lakes Water Company, was furnished with a copy of the Notice of Inspection Rights form, which he reviewed and signed prior to the inspection.

This system serves a subdivision in Cordes Lakes with 1450 service connections. There are four active wells and one inactive well.

Cordes Lakes Water Company  
November 21, 2011  
Page 3 of 8

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Well #1 (55-609346) has a dry pellet chlorinator installed on the well head. Chlorinating pellets used in the system meet the National Sanitation Foundation (NSF) standard 60 for materials that come into contact with drinking water systems. Treated water fills a 45,000 gallon storage tank and is pressurized into the distribution system with two pressure tanks and a hydropneumatic tank and enters as entry point to the distribution system #001 (EPDS001).

Well #2 (55-518196) has a similar pellet drop system and fills a 30,000 gallon storage tank and is pressurized in to the system with two pumps and a hydropneumatic tank and enters the distribution system as EPDS002.

Well #4 (55-609347) has the same type chlorinator. This well fills a 45,000 gallon storage tank. Water is pressurized with two pumps and a hydropneumatic tank and enters the distribution site at EPDS004. The well number posted for the well was 55-60347. This is not the full well number. The entire well number should be posted.

Well #5 (55-565855) has a pellet drop chlorinator. This well fills a 100,000 gallon storage tank. A booster with two pumps and a hydropneumatic tank enter the distribution system as EPDS005.

Well #3 (55-609234) is abandoned and was physically disconnected from the system. There is a tank at the site that Cordes Lakes is planning on moving to the King Mountain booster site.

Two additional booster station are in the distribution system to boost pressure. The King Mountain and the Antelope booster stations have two pumps and a hydropneumatic tank. As stated above, Cordes Lakes is planning on moving the storage tank at the abandoned well site 003 to the King Mountain site for additional storage.

### Monitoring and Reporting

This system participates in the Monitoring Assistance Program (MAP). Therefore, the system is only required to obtain distribution system samples, and any increased monitoring parameters identified through MAP sampling. The MAP program samples for regulated volatile organic chemicals (VOCs), regulated synthetic organic chemicals (SOCs), and regulated inorganic chemicals (IOCs). Because of the efficiency and the cost-effectiveness of the program, it was expanded in recent years to include asbestos, radionuclides, nitrite, nitrate, and nickel.

The following is a summary of the status of the sampling requirements of Cordes Lakes Water Company:

### **Total Coliform**

Cordes Lakes has a population of 3,000 and is required to obtain two total coliform sample per month. Cordes Lakes is currently taking three total coliform samples. No deficiencies were noted in the monthly total coliform monitoring and reporting. Total coliform reports have been submitted to ADEQ in a timely fashion.

Cordes Lakes Water Company  
November 21, 2011  
Page 4 of 8

Docket U-2060

### **Lead and Copper**

Cordes Lakes is on a triennial cycle and is current on lead and copper sampling. The facility is in compliance with lead and copper sampling.

### **Disinfection By Products (DBPs)**

No deficiencies were noted in the disinfection by product monitoring and reporting.

### **Maximum Residual Disinfection Levels (MRDLs)**

Cordes Lakes is required to obtain MRDL readings each month. The MRDL readings are taken at the time and place the total coliform samples are obtained. No deficiencies were noted in the reporting of the monthly MRDL reading.

### **Consumer Confidence Report**

Cordes Lakes is current with distributing Consumer Confidence reports annually, detailing the water quality for the previous calendar year. Therefore, no deficiencies were noted in the annual Consumer Confidence Report filing.

### **Compliance Summary**

#### **1. Monitoring and Reporting Requirements.**

- Cordes Lakes is not missing any monitoring or reporting data.

#### **2. Operator Certification Requirements.**

- This is a grade 2 water treatment and grade 2 water distribution system. Donald Ross is the operator and holds a grade 4 water distribution and grade 3 water treatment certification. Mr. Ross's certifications expire on July 31, 2014.

#### **3. Operation & Maintenance (O&M) Requirements.**

- Post the entire well number for well # 4.

**CORDES LAKES WATER CO.**

P O BOX 1207

EL CAJON CA 92022-1207

Service: (928) 632-5445

FEDERAL ID: 1017

Docket U-2060

AMOUNT PAID \_\_\_\_\_

BILLING DATE

07/23/12

ACCOUNT NUMBER

[REDACTED]

DUE DATE

Upon Receipt

AMOUNT DUE

(\$4.49)

PLEASE MAKE ADDRESS CORRECTIONS BELOW

[REDACTED ADDRESS]



0001142104

DETACH AND MAIL ABOVE PORTION WITH PAYMENT. KEEP BOTTOM PORTION FOR YOUR RECORDS.

| Description | Meter Readings |         | Usage | Read Code     | Readings Dates |           |
|-------------|----------------|---------|-------|---------------|----------------|-----------|
|             | Previous       | Present |       |               | Previous       | Present   |
| Gallons     | 108270         | 108680  | 410   | Final Reading | 6/26/2012      | 7/20/2012 |

|                   |           |
|-------------------|-----------|
| Previous Balance  | \$41.80   |
| Unapplied Deposit | (\$60.00) |
| Water Charge      | \$12.15   |
| Superfund Tax     | \$0.00    |
| Sales Tax         | \$0.94    |
| Late Fee          | \$0.62    |

CREDIT BALANCE - DO NOT PAY

Last Payment Date

05/08/12

Total Due

(\$4.49)

This bill is due and payable when rendered. Any amount not received in 15 days will be considered delinquent and subject to the company's termination procedure.

Lot # 0517

CUSTOMER

[REDACTED]

SERVICE ADDRESS

[REDACTED]

ACCOUNT NUMBER

[REDACTED]

BILLING DATE

07/31/12

METER NUMBER

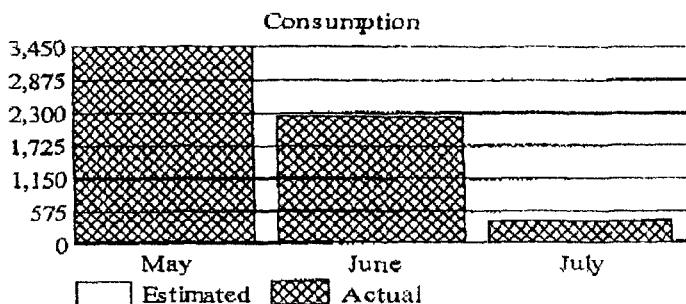
123275

DUE DATE

Upon Receipt

BILLING PERIOD

From 06/30/12 to 07/31/12 = 31 Days

**CORDES LAKES WATER CO.**

P O BOX 1207

EL CAJON CA 92022-1207

Service: (928) 632-5445

CORDES LAKES WATER COMPANY

DOCKET U-2060

SCHEDULES



CORDES LAKES WATER COMPANY --U-2060  
NOTES TO SCHEDULES

**Rental Expense:** The Company maintains three offices. One office is located at Cordes Junction. This office is open for service for four hours per day. There is a one office person and three operators that work out of the Cordes Junction Office. This office is rented. A second office is located in El Cajon, California. This office handles all of the billing, mail collection, and has the computer server. A post office box is maintained at the El Cajon Office. All of the books and records for the company are kept in Tempe, Arizona, where the company maintains the third office. The meter reading computers are maintained in Tempe. Because of the shortage of funds, some of the rents have not been paid.

**Billing Service:** This fee is paid to the office in El Cajon to avoid maintaining a payroll in California. This arrangement avoids the higher cost for Medical insurance and 401K plan Expenses. The amounts are for a supervisor and one part time office person who do the mailing, folding, and checking deposits.

**Payroll & Payroll Taxes:** Several of the employees and officers are paid by more than one entity. To save money on payroll services and taxes the payroll account for the Cordes Lakes Water Company is charged or credited as required to allow the companies to write only a single paycheck. Cordes water's senior operator works 90% outside of Cordes but is paid by the Company. By outside marital agreement, the salary for Neil Folkman is paid to Laurie Folkman. Cordes is rebated \$15,500 per month. In turn, Cordes reimburses other companies for service, because of the revenue shortage. Some of the payments from the company have not been made.

**Meter size and Revenue:** The information in the schedules present fees for 1-in meters, but the company only has 7 active 1-in meters and no active meters larger than 1-in. The company installs only a  $\frac{3}{4}$  in short length meter, and does not install  $\frac{5}{8} \times \frac{3}{4}$  meters. The company keeps separate billing records for commercial accounts, but charges only the residential rate. We have not proposed a commercial rate as we have, with, only one exception, very small commercial customers.

CORDES LAKES WATER COMPANY -U-2060  
SCHEDULE A-1 COMPUTATION OF INCREASE IN GROSS REVENUE  
REQUIREMENTS

|   |   |
|---|---|
| ADJUSTED RATE BASE                        | \$496,789                               |
| ADJUSTED OPERATING INCOME                 | (\$17,373)                              |
| CURRENT RATE OF RETURN                    | 0%                                      |
| REQUIRED OPERATING INCOME                 | \$20,000 + \$30,000 FOR LEAK REPAIR     |
| OPERATING INCOME DEFICIENCY               | \$68,000                                |
| INCREASE IN GROSS REVENUE<br>REQUIREMENTS | \$48,000 TO INCLUDE \$10 TO LEAK REPAIR |

CORDES LAKES WATER COMPANY -- U-2060  
SCHEDULE A-2 -- SUMMARY RESULTS OF OPERATIONS

|                              | TEST YEAR | PREVIOUS<br>YEAR<br>2010 | PREVIOUS<br>YEAR<br>2009 | PROJECTED<br>YEAR<br>2012 | PROJECTED<br>YEAR<br>2012 |
|------------------------------|-----------|--------------------------|--------------------------|---------------------------|---------------------------|
|                              | 2011      |                          | PRESENT RATE             | PRESENT RATE              | PROPOSED RATE             |
| GROSS REVENUE                | \$436,451 | \$447,015                | \$468,210                | \$450,000                 | \$527,000                 |
| PAYROLL ADJUSTMENT TO INCOME | \$167,692 | \$182,936                | \$178,898                | \$168,000                 | \$168,000                 |
| TOTAL INCOME                 | \$604,143 | \$629,951                | \$647,108                | \$618,000                 | \$695,000                 |
| DEDUCTIONS & EXPENSES        | \$584,321 | \$638,621                | \$630,181                | \$643,620                 | \$673,520                 |
| OPERATING INCOME             | \$19,822  | (\$8,670)                | \$16,927                 | (\$25,620)                | \$21,480                  |

CORDES LAKES WATER COMPANY – U-2060  
SCHEDULE A-4 -- CONSTRUCTION EXPENDITURES AND GROSS  
UTILITY PLANT IN SERVICE

| YEAR      | CONSTRUCTION<br>EXPENDITURES | GROSS<br>PLANT IN<br>SERVICE |
|-----------|------------------------------|------------------------------|
| 2009      | \$3,523                      | \$595,790                    |
| 2010      | \$1,165                      | \$596,655                    |
| TEST YEAR | \$4,949                      | \$601,604                    |
| 2012      | \$10,000                     | \$616,604                    |
| 2013      | \$43,000                     | \$659,604                    |
| 2014      | \$40,000                     | \$699,604                    |

CORDES LAKES WATER COMPANY- U-2060  
SCHEDULE B-1 -- SUMMARY OF ORIGINAL COST RATE BASE

|                                     |           |
|-------------------------------------|-----------|
| GROSS UTILITY PLANT IN SERVICE      | \$601,634 |
| LESS ACCUMULATED DEPRECIATION       | \$139,712 |
| NET UTILITY PLANT IN SERVICE        | \$461,922 |
| PLUS: ALLOWANCE FOR WORKING CAPITAL | \$74,147  |
| LESS: SERVICE DEPOSITS              | \$18,170  |
| LESS: METER ADVANCES                | \$21,110  |
| NET                                 | \$34,867  |
| TOTAL ORIGINAL COST RATE BASE       | \$496,789 |

CORDES LAKES WATER COMPANY – U-2060  
SCHEDULE B-2 & B-3 – PROFORMA ADJUSTMENTS

NO PROFORMA ADJUSTMENTS ARE BEING PRESENTED

CORDES LAKES WATER COMPANY – U-2060  
SCHEDULE B-4

THE COMPANY WILL NOT PRODUCE ANY RECONSTRUCTION COST DATA

CORDES LAKES WATER COMPANY – U-2060  
SCHEDULE B-5 ALLOWANCE FOR WORKING CAPITAL

1/24 ELECTRIC \$1,322

1/08 OPERATING & MAINTENANCE \$72,825  
WORKING CAPITAL \$74,147

O & M CALCULATED USING TOTAL EXPENSES (C-1)  
LESS DEPRECIATION AND ELECTRIC



CORDES LAKES WATER COMPANY – U-2060  
SCHEDULE C-1 AND C-2

THERE ARE NO ADJUSTMENTS BEING PRESENTED IN THESE SCHEDULES.

CORDES LAKES WATER COMPANY – U-2060  
SCHEDULE C-3 ADJUSTMENTS AS TO TAXES

IT IS EXPECTED THAT ONLY THE STATE MINIMUM \$45.00 WILL BE PAID IN THE NEXT FIVE YEARS.

CORDES LAKES WATER COMPANY – U-2060  
SCHEDULE D-1 COST OF CAPITAL

| ITEM            | END OF TEST YEAR |      | END OF PROJECTED YEAR |      |
|-----------------|------------------|------|-----------------------|------|
|                 | AMT              | RATE | AMT                   | RATE |
| LONG TERM DEBT  | 0                |      | \$50,000              | 0    |
| SERVICE DEPOSIT | \$18,170         | 6%   | \$20,000              | 6%   |

CORDES LAKES WATER COMPANY - U-2060  
 SCHEDULE -- E-1 COMPARATIVE BALANCE SHEET

PRIOR PERIOD 2009    PRIOR PERIOD 2010    TEST YEAR 2011

ASSETS

|                     |         |         |         |
|---------------------|---------|---------|---------|
| LAND                | 35,665  | 35,665  | 35,665  |
| PUMP HOUSE & FENCES | 6,657   | 6,657   | 6,657   |
| WELLS               | 167,348 | 167,348 | 167,348 |
| PUMPS               | 26,558  | 26,558  | 26,558  |
| TANKS               | 141,632 | 141,632 | 141,632 |
| WATER MAINS         | 15,099  | 15,099  | 15,099  |
| METERS              | 69,677  | 70,842  | 70,842  |
| VEHICLES            | 69,049  | 69,049  | 71,461  |
| EQUIPMENT           | 59,315  | 59,315  | 59,315  |
| OFFICE              | 4,490   | 4,490   | 7,027   |

|        |         |         |         |
|--------|---------|---------|---------|
| ASSETS | 595,490 | 596,655 | 601,604 |
|--------|---------|---------|---------|

|                          |         |         |         |
|--------------------------|---------|---------|---------|
| ACCUMULATED DEPRECIATION | 135,024 | 171,566 | 139,712 |
|--------------------------|---------|---------|---------|

LIABILITIES

|                   |        |        |        |
|-------------------|--------|--------|--------|
| CUSTOMER DEPOSIT  | 16,980 | 17,360 | 18,170 |
| METER ADVANCES    | 25,853 | 23,726 | 21,110 |
| 401K PAYABLE      | 18,902 | 21,164 | 26,487 |
| TOTAL LIABILITIES | 61,735 | 62,250 | 65,767 |

|                 |        |        |        |
|-----------------|--------|--------|--------|
| DEFERRED CREDIT | 51,589 | 47,403 | 43,219 |
|-----------------|--------|--------|--------|

CAPITAL

|                   |         |         |         |
|-------------------|---------|---------|---------|
| STOCK             | 50,000  | 50,000  | 50,000  |
| RETAINED EARNINGS | 595,520 | 596,685 | 601,634 |

CORDES LAKES WATER COMPANY - U-2060  
SCHEDULE -- E-2 COMPARATIVE INCOME STATEMENT

|                             | PRIOR YEAR<br>ENDING<br>12/31/2009 | PRIOR YEAR<br>ENDING<br>12/31/2010 | PRIOR YEAR<br>ENDING<br>12/31/2011 |
|-----------------------------|------------------------------------|------------------------------------|------------------------------------|
| SALES                       | 468,210                            | 447,015                            | 436,451                            |
| RECEIVED FOR CONTRACT LABOR | 178,898                            | 182,936                            | 167,692                            |
| TOTAL INCOME                | 647,108                            | 629,951                            | 604,143                            |
| DEPRECIATION                | 36,446                             | 35,443                             | 37,195                             |
| INCOME TAXES                | 0                                  | 45                                 | 45                                 |
| PROPERTY TAXES              | 15,763                             | 9,137                              | 18,187                             |
| SALES TAX                   | 31,542                             | 29,165                             | 32,458                             |
| PAYROLL TAXES               | 31,080                             | 86,724                             | 175                                |
| PAYROLL                     | 323,380                            | 270,046                            | 309,095                            |
| CONTRACT LABOR PAID         | 13,597                             | 18,095                             | 10,312                             |
| EMPLOYEE BENEFITS           | 20,902                             | 21,164                             | 29,422                             |
| PURCHASED POWER             | 30,697                             | 29,365                             | 31,723                             |
| REPAIR & MAINT              | 111,116                            | 17,221                             | 12,650                             |
| SUPPLIES                    | 16,118                             | 14,992                             | 14,491                             |
| ACCOUNTING                  | 3,550                              | 3,650                              | 3,660                              |
| BILLING SERVICES            | 23,752                             | 24,031                             | 24,118                             |
| COMPUTER PROGRAMMING        | 756                                | 2,161                              | 3,511                              |
| LEGAL                       | 0                                  | 0                                  | 0                                  |
| WATER TESTING               | 10,604                             | 7,111                              | 1,806                              |
| RENTS                       | 32,960                             | 31,225                             | 28,150                             |
| TRANSPORTATION EXP          | 8,594                              | 9,821                              | 8,995                              |
| MEDICAL INSURANCE           | 41,088                             | 39,764                             | 33,033                             |
| LIABILITY INSURANCE         | 7,834                              | 17,859                             | 14,936                             |
| PERMITS                     | 1,000                              | 1,000                              | 2,000                              |
| TRAVEL                      | 0                                  | 0                                  | 0                                  |
| UTILITIES EXCEPT ELECTRIC   | 2,200                              | 3,071                              | 3,391                              |
| BANK CHARGES                | 1,927                              | 1,406                              | 1,304                              |
| PAYROLL SERVICE             | 1,721                              | 1,568                              | 859                                |
| TOTAL EXPENSES              | 630,181                            | 638,621                            | 621,516                            |
| OPERATING INCOME            | 16,927                             | -8,670                             | -17,373                            |
| CONTRIB IN AID W/O          | 4,185                              | 4,185                              | 4,185                              |

CORDES LAKES WATER COMPANY -- U-2060  
SCHEDULE E-5 DETAIL OF UTILITY PLANT

| DESCRIPTION | END OF TEST<br>YEAR 2011 | NET ADDITIONS<br>YEAR 2011 | END OF<br>PRIOR YR 2010 |
|-------------|--------------------------|----------------------------|-------------------------|
| STRUCTURES  | \$ 6,657                 |                            | \$ 6,657                |
| WELLS       | \$ 167,348               |                            | \$ 167,348              |
| PUMPS       | \$ 26,558                |                            | \$ 26,558               |
| TANKS       | \$ 141,632               |                            | \$ 141,632              |
| WATERLINES  | \$ 15,099                |                            | \$ 15,099               |
| METERS      | \$ 70,842                |                            | \$ 70,842               |
| EQUIPMENT   | \$ 59,315                |                            | \$ 59,315               |
| TRUCKS      | \$ 71,461                | \$ 2,412                   | \$ 69,049               |
| OFFICE      | \$ 7,027                 | \$ 2,537                   | \$ 4,490                |
| LAND        | \$ 35,665                |                            | \$ 35,655               |
| TOTAL PLANT | \$ 601,604               | \$ 4,949                   | \$ 596,655              |
| ACCUM DEPR  | \$ 139,712               |                            | \$ 171,566              |
| NET PLANT   | \$ 461,892               | \$ 4,949                   | \$ 425,089              |

CORDES LAKES WATER COMPANY -- U-2060  
SCHEDULE -- E-7 OPERATING STATISTICS

|  | 2011   | 2010   | 2009   |
|--|--------|--------|--------|
| RESIDENTIAL CUSTOMER NUMBERS                   | 1,317  | 1,300  | 1,318  |
| RESIDENTIAL CUSTOMER USAGE<br>MILLIONS GALLONS | 65,496 | 64,025 | 74,682 |
| AVERAGE ANNUAL GALLONS<br>RESIDENTIAL CUSTOMER | 49,170 | 49,250 | 56,630 |
| AVERAGE ANNUAL REVENUE<br>RESIDENTIAL CUSTOMER | \$331  | \$343  | \$343  |
| ELECTRIC COST \$ PER 1000 GALLONS              | \$0.48 | \$0.46 | \$0.40 |

CORDES LAKES WATER COMPANY --U-2060  
SCHEDULE F-1 -- PROJECTED INCOME STATEMENT

|                           | TEST YEAR<br>ENDING<br>12/31/2011 | PROJECTED<br>YEAR<br>12/31/2012<br>PRESENT RATE | PROJECTED<br>YEAR<br>12/31/2012<br>PROPOSED RATE |
|---------------------------|-----------------------------------|---|--|
| SALES                     | \$ 436,451                        | \$ 450,000                                      | \$ 527,000                                       |
| RECEIVED FOR CONT LABOR   | \$ 167,692                        | \$ 168,000                                      | \$ 168,000                                       |
| TOTAL INCOME              | \$ 604,143                        | \$ 618,000                                      | \$ 695,000                                       |
| DEPRECIATION              | \$ 37,195                         | \$ 42,000                                       | \$ 42,000  |
| INCOME TAX                | \$ 45                             | \$ 45   | \$ 45  |
| PROPERTY TAX              | \$ 18,187                         | \$ 18,500                                       | \$ 18,500  |
| SALES TAX                 | \$ 32,458                         | \$ 33,000                                       | \$ 39,500  |
| PAYROLL TAX               | \$ 175                            | \$ 175  | \$ 175   |
| PAYROLL                   | \$ 309,095                        | \$ 309,000                                      | \$ 309,000                                       |
| CONTRACT LABOR PAID       | \$ 10,312                         | \$ 12,000                                       | \$ 12,000  |
| EMPLOYEE BENEFITS         | \$ 29,422                         | \$ 32,000                                       | \$ 32,000  |
| PURCHASED POWER           | \$ 31,723                         | \$ 33,000                                       | \$ 33,000  |
| REPAIR & MAINT            | \$ 12,650                         | \$ 12,000                                       | \$ 35,000  |
| SUPPLIES                  | \$ 14,491                         | \$ 14,600                                       | \$ 15,000  |
| ACCOUNTING                | \$ 3,660                          | \$ 3,700  | \$ 3,700   |
| BILLING SERVICE           | \$ 24,118                         | \$ 25,000                                       | \$ 25,000  |
| COMPUTER PROGRAM          | \$ 3,511                          | \$ 1,000  | \$ 1,000   |
| LEGAL AND RATE CASE       | -                                 | \$ 5,000  | \$ 5,000   |
| WATER TESTING             | \$ 1,806                          | \$ 2,000  | \$ 2,000   |
| RENTS                     | \$ 28,150                         | \$ 33,000                                       | \$ 33,000  |
| TRANSPORTATION EXP        | \$ 8,995                          | \$ 9,000  | \$ 9,000   |
| MEDICAL INSURANCE         | \$ 33,033                         | \$ 35,000                                       | \$ 35,000  |
| LIABILITY INSURANCE       | \$ 14,936                         | \$ 15,000                                       | \$ 15,000  |
| PERMITS                   | \$ 2,000                          | \$ 2,500  | \$ 2,500   |
| TRAVEL                    | -                                 | \$ 500  | \$ 500   |
| UTILITIES EXCEPT ELECTRIC | \$ 3,391                          | \$ 3,200  | \$ 3,200   |
| BANK CHARGES              | \$ 1,304                          | \$ 1,500  | \$ 1,500   |
| PAYROLL SERVICE           | \$ 859                            | \$ 900  | \$ 900   |
| TOTAL EXPENSES            | \$ 621,516                        | \$ 643,620                                      | \$ 673,520                                       |
| OPERATING INCOME          | \$ (17,373)                       | \$ (25,620)                                     | \$ 21,480  |
| CONTRIB IN AID OF CONST   | \$ 4,185                          | \$ 4,185  | \$ 4,185   |
| NET INCOME                | \$ (13,188)                       | \$ (21,435)                                     | \$ 25,665  |



CORDES LAKES WATER COMPANY -- U-2060  
SCHEDULE F-3 - PROJECTED CONSTRUCTION

|                      | TEST YEAR | YEAR<br>ENDING | YEAR<br>ENDING | YEAR<br>ENDING |
|----------------------|-----------|----------------|----------------|----------------|
|                      |           | 12/31/2012     | 12/31/2013     | 12/31/2014     |
| LAND                 |           |                |                |                |
| PUMP HOUSES & FENCES |           |                |                |                |
| WELLS                |           |                |                |                |
| PUMPS                |           | \$ 5,000       | \$ 3,000       |                |
| TANKS                |           |                |                |                |
| MAINS                |           |                | \$ 30,000      | \$ 30,000      |
| METER & SERVICES     |           | \$ 10,000      | \$ 10,000      | \$ 10,000      |
| VEHICLES             |           | \$ 2,537       | \$ 2,000       |                |

THE \$30,000 SHOW FOR 2013 & 2014 IS DESIGNATED FOR LEAK DETECTION AND REPAIR.  
THE \$10,000 SHOWN FOR 2013 & 2014 IS DESIGNATED FOR METER LOSS PREVENTION.

CORDES LAKES WATER COMPANY -- U-2060  
SCHEDULE F-4 ASSUMPTIONS USED IN PROJECTIONS

|   |                          |  |
|---|--------------------------|--|
| 1 | CUSTOMER GROWTH          | 5 PER YEAR   |
| 2 | INFLATION                | 0.50%  |
| 3 | ELECTRIC INCREASE        | 2.50%  |
| 4 | CONSTRUCTION EXPENDITURE | \$30,000 FOR TWO YEARS FOR LEAK<br>DETECTION AND REPAIR<br>\$10,000 FOR THREE YEARS FOR METER<br>TESTING AND REPLACEMENT |
| 5 | CAPITAL CHANGES          | LOAN TO COVER LEAK DETECTION AND<br>REPAIRS. ALL LOANS AT PRIME RATE.  |

CORDES LAKES WATER COMPANY --U-2060  
SCHEDULE H-1 -- SUMMARY OF REVENUE PRESENT  
AND PROPOSED RATES

CUSTOMER CLASSIFICATION

| ALL CLASSES                         | PRESENT<br>RATE | PROPOSED<br>RATE | %<br>INCREASE |
|-------------------------------------|-----------------|------------------|---------------|
| ESTABLISHMENT CHARGE                | \$25.00         | \$30.00          | 20            |
| ESTABLISHMENT CHG-AFTER HOURS       | \$35.00         | \$40.00          | 14            |
| RECONNECT CHARGE                    | \$15.00         | \$20.00          | 33            |
| RECONNECT CHARGE - AFTER HOURS      | \$25.00         | \$30.00          | 20            |
| NSF CHARGE                          | \$12.50         | \$15.00          | 20            |
| METER REREAD - NO CHARGE IF CORRECT | \$10.00         | \$12.00          | 20            |
| METER TEST - NO CHARGE IF CORRECT   | \$25.00         | \$25.00          | 0             |
| DEFERRED PAYMENT (PER MONTH)        | 1.50%           | 1.50%            | 0             |
| DEPOSIT AMOUNT                      | *               | *                | 0             |
| DEPOSIT INTEREST                    | *               | *                | 0             |
| RE-ESTABLISHMENT (WITHIN 12 MONTHS) | **              | **               | 0             |
| LATE CHARGE (PER MONTH)             | 1.50%           | 2.00%            | 33            |
| ROAD CUTTING OR BORING              | COST            | COST             | 0             |

"PER COMMISSION RULE A.A.C. R14-2-403B

\*\*NUMBER OF MONTHS OFF SYSTEM TIMES MONTHLY MINIMUM  
PER COMMISSION RULE A.A.C. R14-2-403D

SERVICE LINE AND METER INSTALLATION CHARGES (REFUNDABLE)

|                | SERV LINE   | METER       | TOTAL       |
|----------------|-------------|-------------|-------------|
| 3/4 - IN METER | \$ 355.00   | \$ 165.00   | \$ 520.00   |
| 1-IN METER     | \$ 405.00   | \$ 205.00   | \$ 610.00   |
| 1-1/2 IN METER | \$ 440.00   | \$ 415.00   | \$ 855.00   |
| 2-IN METER     | \$ 600.00   | \$ 915.00   | \$ 1,515.00 |
| 3-IN METER     | \$ 775.00   | \$ 1,420.00 | \$ 2,195.00 |
| 4-IN METER     | \$ 1,110.00 | \$ 2,250.00 | \$ 3,360.00 |
| 6-IN METER     | \$ 1,670.00 | \$ 4,445.00 | \$ 6,115.00 |

CORDES LAKES WATER COMPANY -- U-2060  
 SCHEDULE H-3 CHANGES IN REPRESENTATIVE RATE SCHEDULE

| BLOCK  | PRESENT<br>BASE<br>RATE | PRESENT<br>EXCESS<br>1 = 3000 | PRESENT<br>EXCESS<br>3 = 8000 | PRESENT<br>EXCESS<br>8000 = ABOVE |
|--------|-------------------------|-------------------------------|-------------------------------|-----------------------------------|
| 0      | \$11.00                 | \$2.80                        | \$4.30                        | \$5.00                            |
| 3000   |                         | \$19.40                       |                               |                                   |
| 8000   |                         |                               | \$40.90                       |                                   |
| 20000+ |                         |                               |                               | \$100.90                          |

|        | PROPOSED<br>BASE<br>RATE | PROPOSED<br>EXCESS<br>1 = 3000<br>GALLONS | PROPOSED<br>EXCESS<br>3 = 8000<br>GALLONS | PROPOSED<br>EXCESS<br>8000 = ABOVE<br>GALLONS |
|--------|--------------------------|---|---|---|
| 0      | \$13.50                  | \$3.30                                    | \$5.25                                    | \$6.00  |
| 3000   |                          | \$23.10                                   |   |   |
| 8000   |                          |   | \$49.35                                   |   |
| 20000+ |                          |   |   | \$121.35                                      |

CORDES LAKES WATER COMPANY -- U-2060  
SCHEDULE H-4 TYPICAL BILL ANALYSIS

| USAGE  | PRESENT<br>RATE | PROPOSED<br>RATE | INCREASE  | %     |
|--------|-----------------|------------------|-----------|-------|
| 0      | \$ 11.00        | \$ 13.50         | \$ 2.50   | 22.7% |
| 1000   | \$ 13.80        | \$ 16.80         | \$ 3.00   | 21.7% |
| 2000   | \$ 16.60        | \$ 20.10         | \$ 3.50   | 21.1% |
| 3000   | \$ 19.40        | \$ 23.40         | \$ 4.00   | 20.6% |
| 4000   | \$ 23.70        | \$ 28.65         | \$ 4.95   | 20.9% |
| 5000   | \$ 28.00        | \$ 33.90         | \$ 5.90   | 21.1% |
| 6000   | \$ 32.30        | \$ 39.15         | \$ 6.85   | 21.2% |
| 7000   | \$ 36.60        | \$ 44.40         | \$ 7.80   | 21.3% |
| 8000   | \$ 40.90        | \$ 49.65         | \$ 8.75   | 21.4% |
| 9000   | \$ 45.90        | \$ 55.65         | \$ 9.75   | 21.2% |
| 10000  | \$ 50.90        | \$ 61.65         | \$ 10.75  | 21.1% |
| 11000  | \$ 55.90        | \$ 67.65         | \$ 11.75  | 21.0% |
| 12000  | \$ 60.90        | \$ 73.65         | \$ 12.75  | 20.9% |
| 13000  | \$ 65.90        | \$ 79.65         | \$ 13.75  | 20.9% |
| 14000  | \$ 70.90        | \$ 85.65         | \$ 14.75  | 20.8% |
| 15000  | \$ 75.90        | \$ 91.65         | \$ 15.75  | 20.8% |
| 16000  | \$ 80.90        | \$ 97.65         | \$ 16.75  | 20.7% |
| 17000  | \$ 85.90        | \$ 103.65        | \$ 17.75  | 20.7% |
| 18000  | \$ 90.90        | \$ 109.65        | \$ 18.75  | 20.6% |
| 19000  | \$ 95.90        | \$ 115.65        | \$ 19.75  | 20.6% |
| 20000  | \$ 100.90       | \$ 121.65        | \$ 20.75  | 20.6% |
| 25000  | \$ 125.90       | \$ 151.65        | \$ 25.75  | 20.5% |
| 30000  | \$ 150.90       | \$ 181.65        | \$ 30.75  | 20.4% |
| 35000  | \$ 175.90       | \$ 211.65        | \$ 35.75  | 20.3% |
| 40000  | \$ 200.90       | \$ 241.65        | \$ 40.75  | 20.3% |
| 50000  | \$ 250.90       | \$ 301.65        | \$ 50.75  | 20.2% |
| 60000  | \$ 300.90       | \$ 361.65        | \$ 60.75  | 20.2% |
| 80000  | \$ 400.90       | \$ 481.65        | \$ 80.75  | 20.1% |
| 100000 | \$ 500.90       | \$ 601.65        | \$ 100.75 | 20.1% |

CORDES LAKES WATER COMPANY -- U-2060  
SCHEDULE H-5 BILL COUNT

| BLOCK<br>USAGE | BILL<br>COUNT | CUMULATIVE<br>NO | BILLS<br>%TOTAL | CUMULATIVE<br>AMOUNT | CONSUMPTION<br>% TOTAL |
|----------------|---------------|------------------|-----------------|----------------------|------------------------|
| 0              | 986           | 986              | 6.3%            | 0                    | 0.0%                   |
| 0-1000         | 2,086         | 3,072            | 19.7%           | 1,043                | 1.6%                   |
| 1000-2000      | 2,316         | 5,388            | 34.6%           | 4,517                | 6.9%                   |
| 2000-3000      | 2,211         | 7,599            | 48.8%           | 10,044               | 15.4%                  |
| 3000-4000      | 2,012         | 9,611            | 61.7%           | 17,086               | 26.1%                  |
| 4000-5000      | 1,559         | 11,170           | 71.7%           | 24,101               | 36.9%                  |
| 5000-6000      | 1,161         | 12,331           | 79.2%           | 30,486               | 46.6%                  |
| 6000-7000      | 793           | 13,124           | 84.3%           | 35,641               | 54.5%                  |
| 7000-8000      | 563           | 13,687           | 87.9%           | 39,863               | 61.0%                  |
| 8000-9000      | 407           | 14,094           | 90.5%           | 43,322               | 66.3%                  |
| 9000-10000     | 296           | 14,390           | 92.4%           | 46,134               | 70.6%                  |
| 10000-11000    | 254           | 14,644           | 94.3%           | 48,801               | 74.7%                  |
| 11000-12000    | 158           | 14,802           | 95.0%           | 50,618               | 77.4%                  |
| 12000-13000    | 143           | 14,945           | 96.0%           | 52,394               | 80.2%                  |
| 13000-14000    | 90            | 15,035           | 96.5%           | 53,609               | 82.0%                  |
| 14000-15000    | 92            | 15,127           | 97.1%           | 54,943               | 84.1%                  |
| 15000-16000    | 67            | 15,194           | 97.6%           | 55,981               | 85.6%                  |
| 16000-17000    | 54            | 15,248           | 97.9%           | 56,872               | 87.0%                  |
| 17000-18000    | 42            | 15,290           | 98.2%           | 57,607               | 88.1%                  |
| 18000-19000    | 42            | 15,332           | 98.4%           | 58,384               | 89.3%                  |
| 19000-20000    | 32            | 15,364           | 98.7%           | 59,008               | 90.3%                  |
| 20000-25000    | 112           | 15,476           | 99.4%           | 61,528               | 94.1%                  |
| 25000-30000    | 34            | 15,510           | 99.6%           | 62,463               | 95.6%                  |
| 30000-35000    | 20            | 15,530           | 99.7%           | 63,113               | 96.6%                  |
| 35000-40000    | 13            | 15,543           | 99.8%           | 63,600               | 97.3%                  |
| 40000-50000    | 9             | 15,552           | 99.9%           | 64,005               | 97.9%                  |
| 50000-75000    | 7             | 15,559           | 99.9%           | 64,038               | 98.0%                  |
| 75000-100000   | 14            | 15,573           | 100.0%          | 65,263               | 99.8%                  |
| 100+           | 1             | 15,574           | 100.0%          | 65,363               | 100.0%                 |

CORDES LAKES WATER COMPANY

DOCKET U-2060

WATER COMPANY PLANT DESCRIPTION

Docket U-2060

| CORDES LAKES WATER COMPANY |                      | SYSTEM ASSETS |  |  |  |
|----------------------------|----------------------|---------------|--|--|--|
| SYSTEM NUMBER              | 13-023               |               |  |  |  |
| DWR #                      | 55-609346            |               |  |  |  |
| POE #                      | 1                    |               |  |  |  |
| MAP LOCATION               |                      |               |  |  |  |
| PID #                      |                      |               |  |  |  |
| LOT #                      | 970                  |               |  |  |  |
| ADDRESS                    | 20452 E ANTELOPE     |               |  |  |  |
| STORAGE TANK               | 2 @ 45,000 GAL STEEL |               |  |  |  |
| PRESS. TANK                | 1 @ 2000 GAL STEEL   |               |  |  |  |
| METER SIZE                 | 3-INCH               |               |  |  |  |
| WELL SIZE                  | 6-INCH               |               |  |  |  |
| WELL DEPTH                 | 404 FEET             |               |  |  |  |
| WELL CASING                | 14-INCH              |               |  |  |  |
| CASING DEPTH               | UNKNOWN              |               |  |  |  |
| STATIC LEVEL               | 95-FEET              |               |  |  |  |
| DRAW DOWN                  | 179-FEET             |               |  |  |  |
| PUMP CAPACITY              | 65 GPM               |               |  |  |  |
| PUMPS WELL                 | 1 @ 7-1/2 HP         |               |  |  |  |
| BOOSTER PUMPS              | 2 @ 7-1/2 HP         |               |  |  |  |
| AIR COMPRESSOR             | 1 @ 1/3 HP           |               |  |  |  |
| POWER                      | 230 VOLTS            |               |  |  |  |
| ROTO PHASE                 | NONE                 |               |  |  |  |
| PUMP HOUSE                 | 8 X 8 WOOD           |               |  |  |  |
| FIRE HYDRANT               | 2-1/2 IN JONES HD    |               |  |  |  |
| FENCING                    | 374-FT CHAIN LINK    |               |  |  |  |



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| CORDES LAKES WATER COMPANY |                   | SYSTEM ASSETS |  |
|----------------------------|-------------------|---------------|--|
|                            |                   | 7/1/2012      |  |
| SYSTEM NUMBER              | 13-023            |               |  |
| DWR #                      | 55-518196         |               |  |
| POE #                      | 2                 |               |  |
| MAP LOCATION               |                   |               |  |
| PID #                      | 500-32-486        |               |  |
| LOT #                      | 2935              |               |  |
| ADDRESS                    | 15646 S BLACK MT  |               |  |
| STORAGE TANK               | 1 @ 30,000 GAL    |               |  |
| PRESS. TANK                | 1 @ 5,000 GAL     |               |  |
| METER SIZE                 | 3-INCH            |               |  |
| WELL SIZE                  | 8-INCH            |               |  |
| WELL DEPTH                 | 380-FEET          |               |  |
| WELL CASING                | 8-INCH            |               |  |
| CASING DEPTH               | 380-FEET          |               |  |
| STATIC LEVEL               | 89- FEET          |               |  |
| DRAW DOWN                  | UNKNOWN           |               |  |
| PUMP CAPACITY              | 95 GPM            |               |  |
| PUMPS WELL                 | 1 @ 7-1/2 HP      |               |  |
| BOOSTER PUMPS              | 2 @ 7-1/2 HP      |               |  |
| AIR COMPRESSOR             | 1 @ 1/3 HP        |               |  |
| POWER                      | 230 VOLT SINGLE   |               |  |
| ROTO PHASE                 | NONE              |               |  |
| PUMP HOUSE                 | 8 X 8 BLOCK       |               |  |
| FIRE HYDRANT               | 1 STANDARD        |               |  |
| FENCING                    | 178-FT CHAIN LINK |               |  |

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| CORDES LAKES WATER COMPANY |                      | SYSTEM ASSETS |
|----------------------------|----------------------|---------------|
|                            |                      | 7/1/2012      |
| SYSTEM NUMBER              | 13-023               |               |
| DWR #                      | 55-609234            | NOT IN USE    |
| POE #                      | 3                    |               |
| MAP LOCATION               |                      |               |
| PID #                      |                      |               |
| LOT #                      | 844                  |               |
| ADDRESS                    | 16410 E ANTELOPE     |               |
| STORAGE TANK               | 1 @ 16,000 GAL STEEL |               |
| PRESS. TANK                | 1 @ 3,000 GAL STEEL  |               |
| METER SIZW                 | 3-INCH               |               |
| WELL SIZE                  | 6-INCH               |               |
| WELL DEPTH                 | 555 FEET             |               |
| WELL CASING                | 6-INCH               |               |
| CASING DEPTH               | 343 FEET             |               |
| STATIC LEVEL               | 56 FEET              |               |
| DRAW DOWN                  | 500 FEET             |               |
| PUMP CAPACITY              | 12 GPM               |               |
| PUMPS WELL                 | 1 @ 2 HP             |               |
| BOOSTER PUMPS              | 2 @ 5 HP             |               |
| AIR COMPRESSOR             | 1 @ 1.3 HP           |               |
| POWER                      | 230 V SINGLE         |               |
| ROTO PHASE                 | NONE                 |               |
| PUMP HOUSE                 | 10 X 12 WOOD         |               |
| FIRE HYDRANT               | NONE                 |               |
| FENCING                    | 104 FT CHAIN LINK    |               |

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| CORDES LAKES WATER COMPANY |                              | SYSTEM ASSETS |  |
|----------------------------|------------------------------|---------------|--|
| SYSTEM NUMBER              | 13-023                       |               |  |
| DWR #                      | 55-609347                    |               |  |
| POE #                      | 4                            |               |  |
| MAP LOCATION               |                              |               |  |
| PID #                      |                              |               |  |
| LOT #                      | 2378                         |               |  |
| ADDRESS                    | 20534 E NAVAJO               |               |  |
| STORAGE TANK               | 1 @ 30,000 GAL               |               |  |
| PRESS. TANK                | 1 @ 5,000 GAL                |               |  |
| METER SIZW                 | 3-INCH                       |               |  |
| WELL SIZE                  | 12-INCH                      |               |  |
| WELL DEPTH                 | 500 FEET                     |               |  |
| WELL CASING                | 12-INCH                      |               |  |
| CASING DEPTH               | 500 FEET                     |               |  |
| STATIC LEVEL               | 64 FEET                      |               |  |
| DRAW DOWN                  | 115 FEET                     |               |  |
| PUMP CAPACITY              | 94 GPM                       |               |  |
| PUMPS WELL                 | 1 @ 7-1/2 HP                 |               |  |
| BOOSTER PUMPS              | 2 @ 10 HP                    |               |  |
| AIR COMPRESSOR             | 1 @ 1.3 HP                   |               |  |
| POWER                      | 230 V SINGLE                 |               |  |
| ROTO PHASE                 | YES                          |               |  |
| PUMP HOUSE                 | 12 X 12 BLOCK                |               |  |
| FIRE HYDRANT               | 2-1/2 JONES HEAD             |               |  |
| FENCING                    | 304 FT CHAIN LINK WITH SLATS |               |  |

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| CORDES LAKES WATER COMPANY |                  | SYSTEM ASSETS |  |
|----------------------------|------------------|---------------|--|
| SYSTEM NUMBER              | 13-023           |               |  |
| DWR #                      | BOOSTER ONLY     |               |  |
| POE #                      | N/A              |               |  |
| MAP LOCATION               | ANTELOPE - 6     |               |  |
| PID #                      |                  |               |  |
| LOT #                      | TRACT A          |               |  |
| ADDRESS                    | E ANTELOPE DR    |               |  |
| STORAGE TANK               | NONE             |               |  |
| PRESS. TANK                | 1 @ 500 GAL      |               |  |
| METER SIZE                 | NONE             |               |  |
| WELL SIZE                  | N/A              |               |  |
| WELL DEPTH                 | N/A              |               |  |
| WELL CASING                | N/A              |               |  |
| CASING DEPTH               | N/A              |               |  |
| STATIC LEVEL               | N/A              |               |  |
| DRAW DOWN                  | N/A              |               |  |
| PUMP CAPACITY              | N/A              |               |  |
| PUMPS WELL                 | NONE             |               |  |
| BOOSTER PUMPS              | 2 @ 5HP          |               |  |
| AIR COMPRESSOR             | NONE             |               |  |
| POWER                      | 230 VOLT SINGLE  |               |  |
| ROTO PHASE                 | NONE             |               |  |
| PUMP HOUSE                 | NONE             |               |  |
| FIRE HYDRANT               | NONE             |               |  |
| FENCING                    | 50 FT CHIAN LINK |               |  |

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| CORDES LAKES WATER COMPANY |                    | SYSTEM ASSETS |  |  |  |
|----------------------------|--------------------|---------------|--|--|--|
| SYSTEM NUMBER              | 13-023             |               |  |  |  |
| DWR #                      | BOOSTER ONLY       |               |  |  |  |
| POE #                      | N/A                |               |  |  |  |
| MAP LOCATION               | KING DR - 7        |               |  |  |  |
| PID #                      |                    |               |  |  |  |
| LOT #                      | 1545               |               |  |  |  |
| ADDRESS                    | S KING DR          |               |  |  |  |
| STORAGE TANK               | NONE               |               |  |  |  |
| PRESS. TANK                | 1 @ 500 GAL        |               |  |  |  |
| METER SIZE                 | NONE               |               |  |  |  |
| WELL SIZE                  | N/A                |               |  |  |  |
| WELL DEPTH                 | N/A                |               |  |  |  |
| WELL CASING                | N/A                |               |  |  |  |
| CASING DEPTH               | N/A                |               |  |  |  |
| STATIC LEVEL               | N/A                |               |  |  |  |
| DRAW DOWN                  | N/A                |               |  |  |  |
| PUMP CAPACITY              | N/A                |               |  |  |  |
| PUMPS WELL                 | NONE               |               |  |  |  |
| BOOSTER PUMPS              | 1 @ 5HP-1@ 7-1/2HP |               |  |  |  |
| AIR COMPRESSOR             | 1 @ 1/3 HP         |               |  |  |  |
| POWER                      | 230 VOLT SINGLE    |               |  |  |  |
| ROTO PHASE                 | NONE               |               |  |  |  |
| PUMP HOUSE                 | NONE               |               |  |  |  |
| FIRE HYDRANT               | NONE               |               |  |  |  |
| FENCING                    | 52 FT CHAIN LINK   |               |  |  |  |

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| CORDES LAKES WATER COMPANY |                    | SYSTEM ASSETS |  |
|----------------------------|--------------------|---------------|--|
| SYSTEM NUMBER              | 13-023             | NOT IN USE    |  |
| DWR #                      | BOOSTER ONLY       |               |  |
| POE #                      | N/A                |               |  |
| MAP LOCATION               | MOON MTN-8         |               |  |
| PID #                      |                    |               |  |
| LOT #                      | 2115               |               |  |
| ADDRESS                    | 19614 MOON MTN     |               |  |
| STORAGE TANK               | NONE               |               |  |
| PRESS. TANK                | 3 @ 100 GAL        |               |  |
| METER SIZE                 | NONE               |               |  |
| WELL SIZE                  | N/A                |               |  |
| WELL DEPTH                 | N/A                |               |  |
| WELL CASING                | N/A                |               |  |
| CASING DEPTH               | N/A                |               |  |
| STATIC LEVEL               | N/A                |               |  |
| DRAW DOWN                  | N/A                |               |  |
| PUMP CAPACITY              | N/A                |               |  |
| PUMPS WELL                 | NONE               |               |  |
| BOOSTER PUMPS              | 1 @ 5HP-1@ 7-1/2HP |               |  |
| AIR COMPRESSOR             | NONE               |               |  |
| POWER                      | 230 VOLT SINGLE    |               |  |
| ROTO PHASE                 | NONE               |               |  |
| PUMP HOUSE                 | NONE               |               |  |
| FIRE HYDRANT               | NONE               |               |  |
| FENCING                    | 68 FT CHAIN LINK   |               |  |

Docket U-2060

| CORDES LAKES WATER COMPANY |                              | SYSTEM ASSETS |  |
|----------------------------|------------------------------|---------------|--|
| SYSTEM NUMBER              | 13-023                       |               |  |
| DWR #                      | 55-565855                    |               |  |
| POE #                      | 5                            |               |  |
| MAP LOCATION               |                              |               |  |
| PID #                      |                              |               |  |
| LOT #                      | 405                          |               |  |
| ADDRESS                    | 16410 IND BEND               |               |  |
| STORAGE TANK               | 1 @ 100,000 GAL              |               |  |
| PRESS. TANK                | 1 @ 5,000 GAL                |               |  |
| METER SIZW                 | 3-INCH                       |               |  |
| WELL SIZE                  | 10-INCH                      |               |  |
| WELL DEPTH                 | 550 FEET                     |               |  |
| WELL CASING                | 10-INCH                      |               |  |
| CASING DEPTH               | 343 FEET                     |               |  |
| STATIC LEVEL               | 90 FEET                      |               |  |
| DRAW DOWN                  | 187 FEET                     |               |  |
| PUMP CAPACITY              | 65 FEET                      |               |  |
| PUMPS WELL                 | 1 @ 10 HP                    |               |  |
| BOOSTER PUMPS              | 2 @ 7-1/2 HP                 |               |  |
| AIR COMPRESSOR             | 1 @ 1.3 HP                   |               |  |
| POWER                      | 230 V SINGLE                 |               |  |
| ROTO PHASE                 | NONE                         |               |  |
| PUMP HOUSE                 | 8 X 8 WOOD                   |               |  |
| FIRE HYDRANT               | NONE                         |               |  |
| FENCING                    | 444 FT CHAIN LINK WITH SLATS |               |  |

1



**ORIGINAL**

**CORDES LAKES WATER COMPANY**

**DOCKET NO W-02060A-12-0356**

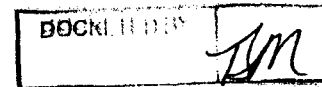
**ADDITIONS TO RATE INCREASE APPLICATION**

**SUBMITTED AUGUST 6, 2012**

Arizona Corporation Commission

**DOCKETED**

**AUG 17 2012**



**RECEIVED**

**2012 AUG 17 P 1:21**

**ARIZONA CORPORATION COMMISSION  
DOCKET CONTROL**

**CORDES LAKES WATER COMPANY**

**DOCKET NO W-02060A-12-0356**

**ADDITIONS REQUESTED BY CARMEN MADRID**

**ADDITIONS REQUESTED BY MARY RIMBACK**

**CORDES LAKES WATER COMPANY**  
**DOCKET NO W-02060A-12-0356**

| PER DECISION #70170         |  | CURRENT RATES |  | PROPOSED RATES |  |
|-----------------------------|--|---------------|--|----------------|--|
| MONTHLY USAGE CHARGE        |  |               |  |                |  |
| 3/4" METER                  |  | \$11.00       |  | \$13.50        |  |
| 1" METER                    |  | \$19.50       |  | \$24.50        |  |
| 1-1/2" METER                |  | \$39.00       |  | \$48.75        |  |
| 2" METER                    |  | \$62.50       |  | \$78.00        |  |
| 3" METER                    |  | \$125.00      |  | \$156.00       |  |
| 4" METER                    |  | \$220.00      |  | \$275.00       |  |
| 6" METER                    |  | \$390.00      |  | \$485.00       |  |
| COMMODITY RATES             |  |               |  |                |  |
| (Per 1,000 Gallons)         |  |               |  |                |  |
| 3/4" METER                  |  |               |  |                |  |
| FROM 1 - 3,000 GALLONS      |  | \$2.80        |  | \$3.30         |  |
| FROM 3,001 TO 8,000 GALLONS |  | \$4.30        |  | \$5.25         |  |
| OVER 8,000 GALLONS          |  | \$5.00        |  | \$6.00         |  |
| 1" METER                    |  |               |  |                |  |
| FROM 1 TO 18,000 GALLONS    |  | \$4.30        |  | \$5.25         |  |
| OVER 18,000 GALLONS         |  | \$5.00        |  | \$6.00         |  |
| 1-1/2" METER                |  |               |  |                |  |
| FROM 1 TO 43,500 GALLONS    |  | \$4.30        |  | \$5.25         |  |
| OVER 43,500 GALLONS         |  | \$5.00        |  | \$6.00         |  |
| 2" METER                    |  |               |  |                |  |
| FROM 1 TO 75,000 GALLONS    |  | \$4.30        |  | \$5.25         |  |
| OVER 75,000 GALLONS         |  | \$5.00        |  | \$6.00         |  |

**3" METER**

|                           |        |        |
|---------------------------|--------|--------|
| FROM 1 TO 160,000 GALLONS | \$4.30 | \$5.25 |
| OVER 160,000 GALLONS      | \$5.00 | \$6.00 |

**4" METER**

|                           |        |        |
|---------------------------|--------|--------|
| FROM 1 TO 290,000 GALLONS | \$4.30 | \$5.25 |
| OVER 290,000 GALLONS      | \$5.00 | \$6.00 |

**6" METER**

|                           |        |        |
|---------------------------|--------|--------|
| FROM 1 TO 530,000 GALLONS | \$4.30 | \$5.25 |
| OVER 530,000 GALLONS      | \$5.00 | \$6.00 |

**SERVICE LINE AND METER INSTALLATION CHARGES:**  
(REFUNDABLE PURSUANT TO A.A.C. R14-2-405)

|                   | SERVICE LINE |  | METER      |  | TOTAL      |            |
|-------------------|--------------|--|------------|--|------------|------------|
|                   | CHARGE       |  | CHARGE     |  | CHARGE     |            |
| 5/8" X 3/4" METER | N/A          |  | N/A        |  | N/A        |            |
| 3/4" METER        | \$355.00     |  | \$165.00   |  | \$520.00   | N/A        |
| 1" METER          | \$405.00     |  | \$205.00   |  | \$610.00   | \$198.00   |
| 1-1/2" METER      | \$440.00     |  | \$415.00   |  | \$855.00   | \$246.00   |
| 2" METER          | \$600.00     |  | \$915.00   |  | \$1,515.00 | \$528.00   |
| 3" METER          | \$775.00     |  | \$1,420.00 |  | \$2,195.00 | \$720.00   |
| 4" METER          | \$1,110.00   |  | \$2,250.00 |  | \$3,360.00 | \$1,098.00 |
| 6" METER          | \$1,670.00   |  | \$4,445.00 |  | \$6,115.00 | \$930.00   |
|                   |              |  |            |  |            | \$1,764.00 |
|                   |              |  |            |  |            | \$2,700.00 |
|                   |              |  |            |  |            | \$4,032.00 |
|                   |              |  |            |  |            | \$7,350.00 |

**SERVICE CHARGES:**

|                                       |         |         |
|---------------------------------------|---------|---------|
| ESTABLISHMENT                         | \$25.00 | \$30.00 |
| ESTABLISHMENT (AFTER HRS)             | \$35.00 | \$40.00 |
| RECONNECTION (DELINQUENT)             | \$15.00 | \$20.00 |
| RECONNECTION (DELINQUENT & AFTER HRS) | \$25.00 | \$30.00 |
| NSF CHECK                             | \$12.50 | \$15.00 |
| METER RE-READ                         | \$10.00 | \$12.00 |
| METER TEST (IF CORRECT)               | \$25.00 | \$30.00 |
| DEFERRED PAYMENT (PER MONTH)          | 1.50%   | 1.50%   |
| DEPOSIT AMOUNT                        | *       | *       |
| DEPOSIT INTEREST                      | *       | *       |
| REESTABLISHMENT (WITHIN 12 MONTHS)    | **      | **      |
| LATE CHARGE (PER MONTH)               | 1.50%   | 1.50%   |
| ROAD CUTTING OR BORING                | COST    | COST    |

\*PER COMMISSION RULE A.A.C. R-14-2-403(B)

\*\*NUMBER OF MONTHS OFF SYSTEM TIMES THE MONTHLY MINIMUM, PER COMMISSION RULE A.A.C. R14-2-403(D).

IN ADDITION TO THE COLLECTION OF REGULAR RATES, THE UTILITY WILL COLLECT FROM ITS CUSTOMERS A PROPORTIONATE SHARE OF ANY PRIVILEGE, SALES, USE, AND FRANCHISE TAX, PER COMMISSION RULE A.A.C. 14-2-409(D)(5).

CORDES LAKES WATER COMPANY --W-02060A-12-0356  
 SCHEDULE H-5 -1 BILL COUNT 3/4 METERS

| BLOCK<br>USAGE | BILL<br>COUNT | CUMULATIVE<br>NO | BILLS<br>%TOTAL | CUMULATIVE<br>AMOUNT | CONSUMPTION<br>% TOTAL |
|----------------|---------------|------------------|-----------------|----------------------|------------------------|
| 0              | 986           | 986              | 6.3%            | 0                    | 0.0%                   |
| 0-1000         | 2,072         | 3,058            | 19.7%           | 3,048                | 1.6%                   |
| 1000-2000      | 2,313         | 5,371            | 34.7%           | 5,371                | 6.9%                   |
| 2000-3000      | 2,203         | 7,574            | 48.9%           | 10,044               | 15.4%                  |
| 3000-4000      | 1,999         | 9,573            | 61.8%           | 17,086               | 26.1%                  |
| 4000-5000      | 1,548         | 11,121           | 71.8%           | 24,101               | 36.9%                  |
| 5000-6000      | 1,155         | 12,276           | 79.2%           | 30,486               | 46.6%                  |
| 6000-7000      | 788           | 13,064           | 84.3%           | 35,641               | 54.5%                  |
| 7000-8000      | 560           | 13,624           | 87.9%           | 39,863               | 61.0%                  |
| 8000-9000      | 406           | 14,030           | 90.5%           | 43,322               | 66.3%                  |
| 9000-10000     | 296           | 14,326           | 92.4%           | 46,134               | 70.6%                  |
| 10000-11000    | 254           | 14,580           | 94.1%           | 48,801               | 74.7%                  |
| 11000-12000    | 158           | 14,738           | 95.1%           | 50,618               | 77.4%                  |
| 12000-13000    | 143           | 14,881           | 96.0%           | 52,394               | 80.2%                  |
| 13000-14000    | 90            | 14,971           | 96.6%           | 53,609               | 82.0%                  |
| 14000-15000    | 92            | 15,063           | 97.2%           | 54,943               | 84.1%                  |
| 15000-16000    | 67            | 15,130           | 97.6%           | 55,981               | 85.6%                  |
| 16000-17000    | 54            | 15,184           | 98.0%           | 56,872               | 87.0%                  |
| 17000-18000    | 42            | 15,226           | 98.2%           | 57,607               | 88.1%                  |
| 18000-19000    | 42            | 15,268           | 98.5%           | 58,384               | 89.3%                  |
| 19000-20000    | 32            | 15,300           | 98.7%           | 59,008               | 90.3%                  |
| 20000-25000    | 112           | 15,412           | 99.4%           | 61,528               | 94.1%                  |
| 25000-30000    | 34            | 15,446           | 99.7%           | 62,463               | 95.6%                  |
| 30000-35000    | 20            | 15,466           | 99.8%           | 63,113               | 96.6%                  |
| 35000-40000    | 13            | 15,479           | 99.9%           | 63,600               | 97.3%                  |
| 40000-50000    | 9             | 15,448           | 99.9%           | 64,005               | 97.9%                  |
| 50000-75000    | 6             | 15,494           | 100.0%          | 64,038               | 98.0%                  |
| 75000-100000   | 5             | 15,499           | 100.0%          | 65,263               | 99.8%                  |
| TOTALS         |               | 15,499           | 100.0%          | 65,363               | 100.0%                 |

|                     |       |
|---------------------|-------|
| AVERAGE CUSTOMERS   | 1,298 |
| AVERAGE CONSUMPTION | 3,100 |
| MEDIAN CONSUMPTION  | 7,100 |

CORDES LAKES WATER COMPANY --W-02060A-12-0356  
 SCHEDULE H-5 -2 BILL COUNT 1-INCH METERS

| BLOCK<br>USAGE | BILL<br>COUNT | CUMULATIVE<br>NO | BILLS<br>%TOTAL | CUMULATIVE<br>AMOUNT | CONSUMPTION<br>% TOTAL |
|----------------|---------------|------------------|-----------------|----------------------|------------------------|
| 0              |               |                  |                 |                      |                        |
| 0-1000         | 13            | 13               |                 |                      |                        |
| 1000-2000      | 13            | 26               |                 |                      |                        |
| 2000-3000      | 8             | 34               |                 |                      |                        |
| 3000-4000      | 13            | 47               |                 |                      |                        |
| 4000-5000      | 11            | 58               |                 |                      |                        |
| 5000-6000      | 6             | 64               |                 |                      |                        |
| 6000-7000      | 4             | 68               |                 |                      |                        |
| 7000-8000      | 3             | 71               |                 |                      |                        |
| 8000-9000      | 1             | 72               |                 |                      |                        |
| TOTALS         | 72            |                  |                 |                      |                        |

SCHEDULE H5-3 BILL COUNT 2-INCH METERS

|              |   |
|--------------|---|
| 60000-65000  |   |
| 65000-70000  | 1 |
| 70000-75000  |   |
| 75000-80000  |   |
| 80000-85000  | 2 |
| 85000-90000  | 4 |
| 90000-95000  | 1 |
| 95000-100000 | 2 |
| 100000+      | 2 |

THERE IS ONE 1-1/2 METER WHICH WAS OFF FOR THE ENTIRE YEAR

**CORDES LAKES WATER COMPANY -- W-02060A-12-0356**  
**SCHEDULE H-4 TYPICAL BILL ANALYSIS**

| USAGE     | PRESENT<br>RATE<br>PER DECISION<br>70170 | PROPOSED<br>RATE | INCREASE | %     |
|-----------|--|------------------|----------|-------|
| 0 \$      | 11.00 \$                                 | 13.50 \$         | 2.50     | 22.7% |
| 1000 \$   | 13.80 \$                                 | 16.80 \$         | 3.00     | 21.7% |
| 2000 \$   | 16.60 \$                                 | 20.10 \$         | 3.50     | 21.1% |
| 3000 \$   | 19.40 \$                                 | 23.40 \$         | 4.00     | 20.6% |
| 4000 \$   | 23.70 \$                                 | 28.65 \$         | 4.95     | 20.9% |
| 5000 \$   | 28.00 \$                                 | 33.90 \$         | 5.90     | 21.1% |
| 6000 \$   | 32.30 \$                                 | 39.15 \$         | 6.85     | 21.2% |
| 7000 \$   | 36.60 \$                                 | 44.40 \$         | 7.80     | 21.3% |
| 8000 \$   | 40.90 \$                                 | 49.65 \$         | 8.75     | 21.4% |
| 9000 \$   | 45.90 \$                                 | 55.65 \$         | 9.75     | 21.2% |
| 10000 \$  | 50.90 \$                                 | 61.65 \$         | 10.75    | 21.1% |
| 11000 \$  | 55.90 \$                                 | 67.65 \$         | 11.75    | 21.0% |
| 12000 \$  | 60.90 \$                                 | 73.65 \$         | 12.75    | 20.9% |
| 13000 \$  | 65.90 \$                                 | 79.65 \$         | 13.75    | 20.9% |
| 14000 \$  | 70.90 \$                                 | 85.65 \$         | 14.75    | 20.8% |
| 15000 \$  | 75.90 \$                                 | 91.65 \$         | 15.75    | 20.8% |
| 16000 \$  | 80.90 \$                                 | 97.65 \$         | 16.75    | 20.7% |
| 17000 \$  | 85.90 \$                                 | 103.65 \$        | 17.75    | 20.7% |
| 18000 \$  | 90.90 \$                                 | 109.65 \$        | 18.75    | 20.6% |
| 19000 \$  | 95.90 \$                                 | 115.65 \$        | 19.75    | 20.6% |
| 20000 \$  | 100.90 \$                                | 121.65 \$        | 20.75    | 20.6% |
| 25000 \$  | 125.90 \$                                | 151.65 \$        | 25.75    | 20.5% |
| 30000 \$  | 150.90 \$                                | 181.65 \$        | 30.75    | 20.4% |
| 35000 \$  | 175.90 \$                                | 211.65 \$        | 35.75    | 20.3% |
| 40000 \$  | 200.90 \$                                | 241.65 \$        | 40.75    | 20.3% |
| 50000 \$  | 250.90 \$                                | 301.65 \$        | 50.75    | 20.2% |
| 60000 \$  | 300.90 \$                                | 361.65 \$        | 60.75    | 20.2% |
| 80000 \$  | 400.90 \$                                | 481.65 \$        | 80.75    | 20.1% |
| 100000 \$ | 500.90 \$                                | 601.65 \$        | 100.75   | 20.1% |



**CORDES LAKES WATER COMPANY --W-02060A-12-0356**  
**2011 SERVICE CHARGES COLLECTED**

|                   | <b>ESTAB<br/>FEE</b> | <b>RECONN<br/>FEE</b> | <b>AFTER HRS<br/>RECONNECT</b> | <b>RE-ESTAB<br/>FEE</b> |
|-------------------|----------------------|-----------------------|--------------------------------|-------------------------|
| <b>JAN</b>        | \$475                | \$135                 | \$25                           | \$0                     |
| <b>FEB</b>        | \$825                | \$135                 | \$25                           | \$0                     |
| <b>MAR</b>        | \$625                | \$75                  | \$25                           | \$0                     |
| <b>APR</b>        | \$700                | \$45                  | \$50                           | \$0                     |
| <b>MAY</b>        | \$675                | \$150                 | \$25                           | \$0                     |
| <b>JUN</b>        | \$600                | \$90                  | \$0                            | \$0                     |
| <b>JUL</b>        | \$500                | \$0                   | \$0                            | \$0                     |
| <b>AUG</b>        | \$550                | \$75                  | \$0                            | \$15                    |
| <b>SEP</b>        | \$550                | \$55                  | \$0                            | \$55                    |
| <b>OCT</b>        | \$550                | \$120                 | \$0                            | \$0                     |
| <b>NOV</b>        | \$325                | \$15                  | \$0                            | \$0                     |
| <b>DEC</b>        | \$450                | \$150                 | \$0                            | \$0                     |
| <b>TOTALS</b>     | \$6,825              | \$1,045               | \$150                          | \$70                    |
| <b>TOTAL FEES</b> | \$8,090              |                       |                                |                         |

2

**ORIGINAL**

**CORDES LAKES WATER COMPANY**

**DOCKET NO W-02060A-12-0356**

**ADDITIONS AND REVISIONS TO RATE INCREASE  
APPLICATION**

**SUBMITTED SEPTEMBER 24, 2012**

Arizona Corporation Commission

**DOCKETED**

SEP 25 2012

|             |           |
|-------------|-----------|
| DOCKETED BY | <i>DM</i> |
|-------------|-----------|

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**AZ CORP COMMISSION  
DOCKET CONTROL**

**CORDES LAKES WATER COMPANY**

**DOCKET NO W-02060A-12-0356**

**ADDITIONS REQUESTED BY MARY RIMBACK**

**ADDITIONS REQUESTED BY DEL SMITH**

**SUBMITTED SEPTEMBER 24, 2012**

**CORDES LAKES WATER COMPANY –DOCKET NO W-02060A-12-0356**

**PER REQUEST OF MARY RIMBACK**

**THE FOLLOWING IS PROVIDED**

We have revised all Income statements to separate Water Sales from Miscellaneous Revenue Items. These statements are: A2 E2 F1

The Company uses a billing program to generate the Water Bills and Cash Receipts and the Sales Tax Reports. A separate General Ledger program accounts for the Checking Account and Profit and Loss. We have calculated net Water Sales for both methods. By the General Ledger Method, we show net sales as \$403,353. By the Water Billing Program, we show net sales of \$407,858. The difference is less than 1%. We used \$403,353.

CORDES LAKES WATER COMPANY -W-02060A-12-0356  
SCHEDULE A-1 COMPUTATION OF INCREASE IN GROSS REVENUE  
REQUIREMENTS

|   |            |
|---|------------|
| ADJUSTED RATE BASE  | \$496,789  |
| ADJUSTED OPERATING INCOME   | (\$17,373) |
| CURRENT RATE OF RETURN  | 0%         |
| REQUIRED OPERATING INCOME<br>WITHOUT SURCHARGE                        | \$37,000   |
| REQUIRED RATE OF RETURN   | 8%         |
| OPERATING INCOME DEFICIENCY   | \$68,000   |
| INCREASE IN GROSS REVENUE<br>REQUIREMENTS TO COVER BOTH<br>SURCHARGES | \$77,000   |

AS INDICATED ABOVE THE COMPANY IS REQUESTING:

|                             |          |
|-----------------------------|----------|
| Income to Cover Loss        | \$17,000 |
| Income to Generate Profit   | \$20,000 |
| Water Loss Repair Surcharge | \$30,000 |
| Meter Replacement Surcharge | \$10,000 |
| Total                       | \$77,000 |

CORDES LAKES WATER COMPANY -- W-02060A-12-0356  
 SCHEDULE REVISED A-2 -- SUMMARY RESULTS OF OPERATIONS

|                              | TEST YEAR    | PREVIOUS     | PREVIOUS     | PROJECTED    | PROJECTED     |
|------------------------------|--------------|--------------|--------------|--------------|---------------|
|                              | 2011<br>2011 | YEAR<br>2010 | YEAR<br>2009 | YEAR<br>2012 | YEAR<br>2012  |
|                              |              |              | PRESENT RATE | PRESENT RATE | PROPOSED RATE |
| GROSS REVENUE                | \$403,353    | \$447,015    | \$468,210    | \$450,000    | \$527,000     |
| MISC INCOME                  | \$640        |              |              |              |               |
| PAYROLL ADJUSTMENT TO INCOME | \$167,692    | \$182,936    | \$178,898    | \$168,000    | \$168,000     |
| TOTAL INCOME                 | \$571,685    | \$629,951    | \$647,108    | \$618,000    | \$695,000     |
| DEDUCTIONS & EXPENSES        | \$589,058    | \$638,621    | \$630,181    | \$643,620    | \$673,520     |
| OPERATING INCOME             | (\$17,373)   | (\$8,670)    | \$16,927     | (\$25,620)   | \$21,480      |

**CORDES LAKES WATER COMPANY**  
**SCHEDULE A-2 (B)**

**W-02060A-12-0356**

**SALES AS REPORTED ON ORIGINAL APPLICATION**

|                                       |           |                   |
|---------------------------------------|-----------|-------------------|
| SALES (BASED UPON COLLECTIONS)        | \$        | 436,451.00        |
| NON WATER COMPANY ADJUSTMENT          | \$        | 11,034.00         |
| BAD CHECKS                            | \$        | (2,707.00)        |
| DEPOSIT ACCOUNT BALANCE               | \$        | 1,810.00          |
| METER REFUND ACCT. BALANCE            | \$        | (2,616.00)        |
| MISC ACCT ADJ (ESTAB, RECONNECT, ETC) | \$        | (8,161.00)        |
| SALES TAX COLLECTED                   | \$        | (32,458.00)       |
| <b>NET WATER SALES</b>                | <b>\$</b> | <b>403,353.00</b> |

**TO VERIFY AMOUNTS WE PROVIDE**

|                                       |           |                   |
|---------------------------------------|-----------|-------------------|
| SALES (BASED UPON BILLING (SALES TAX) | \$        | 414,112.00        |
| BAD DEBT                              | \$        | (6,254.00)        |
| <b>NET WATER SALES</b>                | <b>\$</b> | <b>407,858.00</b> |

**THE ABOVE TABLE IS BASED UPON WATER RECEIPTS COLLECTED**



CORDES LAKES WATER COMPANY - W-02060A-12-0356  
SCHEDULE -- REVISED E-2 COMPARATIVE INCOME STATEMENT

|                             | PRIOR YEAR<br>ENDING<br>12/31/2009 | PRIOR YEAR<br>ENDING<br>12/31/2010 | PRIOR YEAR<br>ENDING<br>12/31/2011 |
|-----------------------------|------------------------------------|------------------------------------|------------------------------------|
| SALES                       | 468,210                            | 447,015                            | 403,353                            |
| MISC INCOME (NET)           |                                    |                                    | 640                                |
| RECEIVED FOR CONTRACT LABOR | 178,898                            | 182,936                            | 167,692                            |
| TOTAL INCOME                | 647,108                            | 629,951                            | 571,685                            |
| DEPRECIATION                | 36,446                             | 35,443                             | 37,195                             |
| INCOME TAXES                | 0                                  | 45                                 | 45                                 |
| PROPERTY TAXES              | 15,763                             | 9,137                              | 18,187                             |
| SALES TAX                   | 31,542                             | 29,165                             | -                                  |
| PAYROLL TAXES               | 31,080                             | 86,724                             | 175                                |
| PAYROLL                     | 323,380                            | 270,046                            | 309,095                            |
| CONTRACT LABOR PAID         | 13,597                             | 18,095                             | 10,312                             |
| EMPLOYEE BENEFITS           | 20,902                             | 21,164                             | 29,422                             |
| PURCHASED POWER             | 30,697                             | 29,365                             | 31,723                             |
| REPAIR & MAINT              | 11,116                             | 17,221                             | 12,650                             |
| SUPPLIES                    | 16,118                             | 14,992                             | 14,491                             |
| ACCOUNTING                  | 3,550                              | 3,650                              | 3,660                              |
| BILLING SERVICES            | 23,752                             | 24,031                             | 24,118                             |
| COMPUTER PROGRAMMING        | 756                                | 2,161                              | 3,511                              |
| LEGAL                       | 0                                  | 0                                  | 0                                  |
| WATER TESTING               | 10,604                             | 7,111                              | 1,806                              |
| RENTS                       | 32,960                             | 31,225                             | 28,150                             |
| TRANSPORTATION EXP          | 8,594                              | 9,821                              | 8,995                              |
| MEDICAL INSURANCE           | 41,088                             | 39,764                             | 33,033                             |
| LIABILITY INSURANCE         | 7,834                              | 17,859                             | 14,936                             |
| PERMITS                     | 1,000                              | 1,000                              | 2,000                              |
| TRAVEL                      | 0                                  | 0                                  | 0                                  |
| UTILITIES EXCEPT ELECTRIC   | 2,200                              | 3,071                              | 3,391                              |
| BANK CHARGES                | 1,927                              | 1,406                              | 1,304                              |
| PAYROLL SERVICE             | 1,721                              | 1,568                              | 859                                |
| TOTAL EXPENSES              | 630,181                            | 638,621                            | 589,058                            |
| OPERATING INCOME            | 16,927                             | -8,670                             | -17,373                            |
| CONTRIB IN AID W/O          | 4,185                              | 4,185                              | 4,185                              |
| NET INCOME                  |                                    |                                    | -13,188                            |

CORDES LAKES WATER COMPANY --W-02060A-12-0356  
SCHEDULE REVISED F-1 -- PROJECTED INCOME STATEMENT

|                           | TEST YEAR<br>ENDING<br>12/31/2011 | PROJECTED<br>YEAR<br>12/31/2012<br>PRESENT RATE | PROJECTED<br>YEAR<br>12/31/2012<br>PROPOSED RATE |
|---------------------------|-----------------------------------|---|--|
| SALES                     | \$ 403,353                        | \$ 450,000                                      | \$ 527,000                                       |
| MISC INCOME (NET)         | \$ 640                            |   |  |
| RECEIVED FOR CONT LABOR   | \$ 167,692                        | \$ 168,000                                      | \$ 168,000                                       |
| TOTAL INCOME              | \$ 604,143                        | \$ 618,000                                      | \$ 695,000                                       |
| DEPRECIATION              | \$ 37,195                         | \$ 42,000                                       | \$ 42,000  |
| INCOME TAX                | \$ 45                             | \$ 45   | \$ 45  |
| PROPERTY TAX              | \$ 18,187                         | \$ 18,500                                       | \$ 18,500  |
| SALES TAX                 | -                                 | \$ 33,000                                       | \$ 39,500  |
| PAYROLL TAX               | \$ 175                            | \$ 175  | \$ 175   |
| PAYROLL                   | \$ 309,095                        | \$ 309,000                                      | \$ 309,000                                       |
| CONTRACT LABOR PAID       | \$ 10,312                         | \$ 12,000                                       | \$ 12,000  |
| EMPLOYEE BENEFITS         | \$ 29,422                         | \$ 32,000                                       | \$ 32,000  |
| PURCHASED POWER           | \$ 31,723                         | \$ 33,000                                       | \$ 33,000  |
| REPAIR & MAINT            | \$ 12,650                         | \$ 12,000                                       | \$ 35,000  |
| SUPPLIES                  | \$ 14,491                         | \$ 14,600                                       | \$ 15,000  |
| ACCOUNTING                | \$ 3,660                          | \$ 3,700  | \$ 3,700   |
| BILLING SERVICE           | \$ 24,118                         | \$ 25,000                                       | \$ 25,000  |
| COMPUTER PROGRAM          | \$ 3,511                          | \$ 1,000  | \$ 1,000   |
| LEGAL AND RATE CASE       | -                                 | \$ 5,000  | \$ 5,000   |
| WATER TESTING             | \$ 1,806                          | \$ 2,000  | \$ 2,000   |
| RENTS                     | \$ 28,150                         | \$ 33,000                                       | \$ 33,000  |
| TRANSPORTATION EXP        | \$ 8,995                          | \$ 9,000  | \$ 9,000   |
| MEDICAL INSURANCE         | \$ 33,033                         | \$ 35,000                                       | \$ 35,000  |
| LIABILITY INSURANCE       | \$ 14,936                         | \$ 15,000                                       | \$ 15,000  |
| PERMITS                   | \$ 2,000                          | \$ 2,500  | \$ 2,500   |
| TRAVEL                    | -                                 | \$ 500  | \$ 500   |
| UTILITIES EXCEPT ELECTRIC | \$ 3,391                          | \$ 3,200  | \$ 3,200   |
| BANK CHARGES              | \$ 1,304                          | \$ 1,500  | \$ 1,500   |
| PAYROLL SERVICE           | \$ 859                            | \$ 900  | \$ 900   |
| TOTAL EXPENSES            | \$ 589,058                        | \$ 643,620                                      | \$ 673,520                                       |
| OPERATING INCOME          | \$ (17,373)                       | \$ (25,620)                                     | \$ 21,480  |
| CONTRIB IN AID OF CONST   | \$ 4,185                          | \$ 4,185  | \$ 4,185   |
| NET INCOME                | \$ (13,188)                       | \$ (21,435)                                     | \$ 25,665  |

**CORDES LAKES WATER COMPANY – DOCKET NO W-02060A-12-0356**

**PER REQUEST OF DEL SMITH**

**THE FOLLOWING IS PROVIDED**

Latest Map Invoice

Invoices for Water Testing and Statement showing 12 Monthly Coliform testing @78.75 and one chlorine residual test for \$861.00

The Operators Certification for Donald Ross and credit card receipt for course.

Schematic of Water System including the number of services.

The Company has been plagued by leaks almost from the beginning of the System by the developer, Queen Creek and cattle. The system at the time it was installed was with Solvent Weld 4-inch and 6-inch pipe. Much of the pipe was Class 125 psi pipe. This is a class that is no longer approved for Water System Use. In our experience, we have found that most of our leaks are at solvent weld joints. The water tends to run down underground to the soft sand in washes and never returns to ground level. We have an estimate from American Leak Detection quoting \$1250.00 per day for Detection Service. It is expected that leak repair itself could cost \$500 to 1000 each. It is doubtful whether present staff could undertake the project.

The company estimates that the money required to adopt a meter replacement program such as BMP4.2 would result in the testing or replacement of 30-35 Meters per year over and above the normal replacement of meters.

Water testing for 2009 includes the Maps Testing fee of \$3500 plus charges for Testing Chlorine Residual and Lead and Copper. The \$10,000 fee also includes extra compliance testing. The \$7000 Testing fee for 2010 includes the \$3500 for Maps and a reduced amount for compliance testing. The 2011 total does not include Maps fee which was not due until April 2012. All tests are in compliance.

The company is proposing an increase of \$18,000 to cover losses plus and increase of \$20,000 to cover a minimum profit. In addition, the Company is proposing a surcharge of \$30,000 for the first two years to cover leak repair and \$10,000 for the first three years to cover meter repair and replacement.

We have contacted ADWR concerning the deficient report. The reports will be filed by September 28<sup>th</sup>, 2012.

10:00 AM  
09/10/12  
Accrual Basis

CORDES LAKES WATER COMPANY  
Transaction Detail By Account  
January through December 2011

| Type                                    | Date       | Num      | Name         | Memo      | Clr | Split            | Amount   |
|---|------------|----------|--------------|-----------|-----|------------------|----------|
| 546 - REGULATORY EXPENSE - HEALTH       |            |          |              |           |     |                  |          |
| Bill                                    | 1/7/2011   | 55021... | TEST AMERICA | 55021822  |     | 2000 · Accoun... | 78.75    |
| Bill                                    | 2/17/2011  | 55024... | TEST AMERICA | 55024255  |     | 2000 · Accoun... | 78.75    |
| Bill                                    | 3/9/2011   | 55025... | TEST AMERICA | 55025589  |     | 2000 · Accoun... | 78.75    |
| Bill                                    | 4/8/2011   | 55027... | TEST AMERICA | 55027660  |     | 2000 · Accoun... | 78.75    |
| Bill                                    | 5/5/2011   | 55029... | TEST AMERICA | 55029408  |     | 2000 · Accoun... | 78.75    |
| Bill                                    | 6/10/2011  | 55031... | TEST AMERICA | 55031684  |     | 2000 · Accoun... | 78.75    |
| Bill                                    | 7/12/2011  | 55033... | TEST AMERICA | 55033492  |     | 2000 · Accoun... | 78.75    |
| Bill                                    | 7/13/2011  | 55033... | TEST AMERICA | 55033559  |     | 2000 · Accoun... | 861.00   |
| Bill                                    | 8/16/2011  | 55036... | TEST AMERICA | 55036022  |     | 2000 · Accoun... | 78.75    |
| Bill                                    | 9/13/2011  | 55037... | TEST AMERICA | 55037742  |     | 2000 · Accoun... | 78.75    |
| Bill                                    | 10/11/2011 | 55039... | TEST AMERICA | 55039704  |     | 2000 · Accoun... | 78.75    |
| Bill                                    | 11/7/2011  | 55041... | TEST AMERICA | 55041299  |     | 2000 · Accoun... | 78.75    |
| Bill                                    | 12/12/2011 | 55043... | TEST AMERICA | 55043733- |     | 2000 · Accoun... | 78.75    |
| Total 546 - REGULATORY EXPENSE - HEALTH |            |          |              |           |     |                  | 1,806.00 |
| TOTAL                                   |            |          |              |           |     |                  | 1,806.00 |

(1863)

# TestAmerica

## INVOICE

THE LEADER IN ENVIRONMENTAL TESTING

4625 East Cotton Center Blvd. Ste 189 Phoenix, AZ 85040 (602) 437-3340 Fax: (602) 454-9303

| <b>Invoice To:</b><br>Cordes Lakes Water<br>Don Ross<br>P.O. Box 219<br>Tempe, AZ 85280<br><br>1331 |   | <b>Invoice Number:</b> 55033559<br><br><b>Remit Payment To:</b><br>TestAmerica Laboratories, Inc.<br>Dept 2314<br>P.O. Box 122314<br>Dallas, TX 75312-2314<br><br>TestAmerica EIN: 23-2919996<br>For Billing Inquiries please contact: (602) 437-3340  |           |               |             |           |               |   |                           |                |    |      |          |          |   |   |                |    |      |         |          |
|---|---|--|-----------|---------------|-------------|-----------|---------------|---|---------------------------|----------------|----|------|----------|----------|---|---|----------------|----|------|---------|----------|
| <b>Invoice Date:</b> 07/13/11   | <b>Client:</b> Cordes Lakes Water<br><b>Client Contact:</b> Don Ross<br><br><b>Project:</b> N_Cordes Lakes & Berneil / [none]<br><b>PO Number:</b> NA<br><b>Samples Received:</b> 07/05/11<br><b>Samples Reported:</b> 07/12/11 |  |           |               |             |           |               |   |                           |                |    |      |          |          |   |   |                |    |      |         |          |
| <b>Lab Contact:</b><br>Suzanne Glass<br>suzanne.glass@testamericainc.com                            |   | <b>Terms:</b> See Below  |           |               |             |           |               |   |                           |                |    |      |          |          |   |   |                |    |      |         |          |
| <b>Workorder:</b> PUG0145   |   |  |           |               |             |           |               |   |                           |                |    |      |          |          |   |   |                |    |      |         |          |
| <b>Qty</b>  | <b>Analysis/Description</b>   | <table border="1"><thead><tr><th>Matrix</th><th>Rush TAT</th><th>Rush Charge</th><th>Unit Cost</th><th>Extended Cost</th></tr></thead><tbody><tr><td>4</td><td>Haloacetic Acid (EPA 552)</td><td>Drinking Water</td><td>NA</td><td>None</td><td>\$125.00</td><td>\$500.00</td></tr><tr><td>4</td><td>Purgeable Organic Compounds (EPA 524.2 - TTHMs)</td><td>Drinking Water</td><td>NA</td><td>None</td><td>\$80.00</td><td>\$320.00</td></tr></tbody></table> | Matrix    | Rush TAT      | Rush Charge | Unit Cost | Extended Cost | 4 | Haloacetic Acid (EPA 552) | Drinking Water | NA | None | \$125.00 | \$500.00 | 4 | Purgeable Organic Compounds (EPA 524.2 - TTHMs) | Drinking Water | NA | None | \$80.00 | \$320.00 |
| Matrix  | Rush TAT  | Rush Charge  | Unit Cost | Extended Cost |             |           |               |   |                           |                |    |      |          |          |   |   |                |    |      |         |          |
| 4   | Haloacetic Acid (EPA 552)   | Drinking Water   | NA        | None          | \$125.00    | \$500.00  |               |   |                           |                |    |      |          |          |   |   |                |    |      |         |          |
| 4   | Purgeable Organic Compounds (EPA 524.2 - TTHMs)   | Drinking Water   | NA        | None          | \$80.00     | \$320.00  |               |   |                           |                |    |      |          |          |   |   |                |    |      |         |          |
| <b>Additional Items</b><br>1 Environmental Management Fee   |   | 5.00% \$41.00  |           |               |             |           |               |   |                           |                |    |      |          |          |   |   |                |    |      |         |          |
|   |   | <b>Invoice Total:</b> \$861.00   |           |               |             |           |               |   |                           |                |    |      |          |          |   |   |                |    |      |         |          |

Any applicable rush charges are based on the actual turn-around-time met.

(2 of 3)

Prices shown include all applicable discounts. TestAmerica's Standard Terms & Conditions (Net 30 Days) apply to all work performed and invoiced unless superseded by a specific executed contract vehicle.

Invoice: 55033559

Page 1 of 1

# TestAmerica

## INVOICE

THE LEADER IN ENVIRONMENTAL TESTING

4625 East Cotton Center Blvd. Ste 189 Phoenix, AZ 85040 (602) 437-3340 Fax: (602) 454-9303

**Invoice To:**

Cordes Lakes Water  
Don Ross  
P.O. Box 219  
Tempe, AZ 85280

**Invoice Number: 55024255**

**Remit Payment To:**

TestAmerica Laboratories, Inc.  
Dept 2314  
P.O. Box 122314  
Dallas, TX 75312-2314

TestAmerica EIN: 23-2919996

For Billing Inquiries please contact: (602) 437-3340

**Invoice Date:** 02/15/11

**Client:** Cordes Lakes Water  
**Client Contact:** Don Ross

**Terms:** See Below

**Lab Contact:**  
Suzanne Glass  
suzanne.glass@testamericainc.com

**Project:** N\_Cordes Lakes & Berneil / 13-023  
**PO Number:** NA  
**Samples Received:** 02/09/11

**Samples Reported:** 02/15/11

**Workorder:** PUB0587

**Qty Analysis/Description**

**Matrix**

**Rush  
TAT**

**Rush  
Charge**

**Unit  
Cost**

**Extended  
Cost**

3 Total Coliform-P/A (24 hours)

Drinking Water

NA

None

\$25.00

\$75.00

**Additional Items**

1 Environmental Management Fee

5.00%

\$3.75

**Invoice Total: \$78.75**

Any applicable rush charges are based on the actual turn-around-time met.

(3 of 3)

Prices shown include all applicable discounts. TestAmerica's Standard Terms & Conditions (Net 30 Days) apply to all work performed and invoiced unless superseded by a specific executed contract vehicle.

Invoice: 55024255

Page 1 of 1

# ARIZONA DEPARTMENT OF ENVIRONMENTAL QUALITY

DONALD ROSS, OP005277

has complied with the requirements for operator certification in the State of Arizona pursuant to Arizona Revised Statutes, Title 49, Chapter 2, Articles 9 and 10, and Arizona Administrative Code, Title 18, Chapter 5, Article 1. Therefore, the Arizona Department of Environmental issues this Certificate of Registration as a

**Certificate Number**

52064

52065

**Grade and Classification**

Grade 4 Water Distribution System Operator

Grade 3 Water Treatment Plant Operator

**Expiration Date**

7/31/2014

7/31/2014

*William P. Reesh*

Operator Certification Coordinator

(1.062)

Statement Date: 01/15/11 - 02/14/11  
Account Number:

CHASE

Page 2 of 3  
OVER

ACCOUNT ACTIVITY (CONTINUED)

|       |  |        |
|-------|--|--------|
| 01/17 | AUTOZONE #2712 SCOTTSDALE AZ                                   | -10.88 |
| 01/16 | FRYS FUEL # 7103 COTTONWOOD AZ                                 | 55.45  |
| 01/17 | AUTOZONE #2712 SCOTTSDALE AZ                                   | 43.56  |
| 01/17 | AUTOZONE #2712 SCOTTSDALE AZ                                   | 10.88  |
| 01/20 | Big O Tires SCOTTSDALE AZ                                      | 26.24  |
| 01/24 | TECHNICAL LEARNING COLLEG 928-468-0665 AZ                      | 424.95 |
| 01/30 | FRYS FUEL # 7103 COTTONWOOD AZ                                 | 64.22  |
| 02/01 | ACE HDW & RNTL-SCOTTSD SCOTTSDALE AZ                           | 32.66  |
| 02/03 | 7-ELEVEN 29110 PHOENIX AZ                                      | 57.72  |
| 02/04 | NOR* NORTHERN TOOL 800-222-5381 MN                             | 465.21 |
| 02/07 | FASTSIGNS NO 160102 TEMPE AZ                                   | 135.62 |
| 02/10 | FRYS FUEL # 7103 COTTONWOOD AZ                                 | 56.41  |
|       | DONALD ROSS<br>TRANSACTIONS THIS CYCLE (CARD 8544) \$1,501.08  |        |
| 01/19 | TRUCK STUFF PHOENIX AZ <i>Auto</i>                             | 14.20  |
|       | REITMAN RHYASEN<br>TRANSACTIONS THIS CYCLE (CARD 5470) \$14.20 |        |

2011 Totals Year-to-Date

|                                |        |
|--------------------------------|--------|
| Total fees charged in 2011     | \$0.00 |
| Total interest charged in 2011 | \$0.00 |

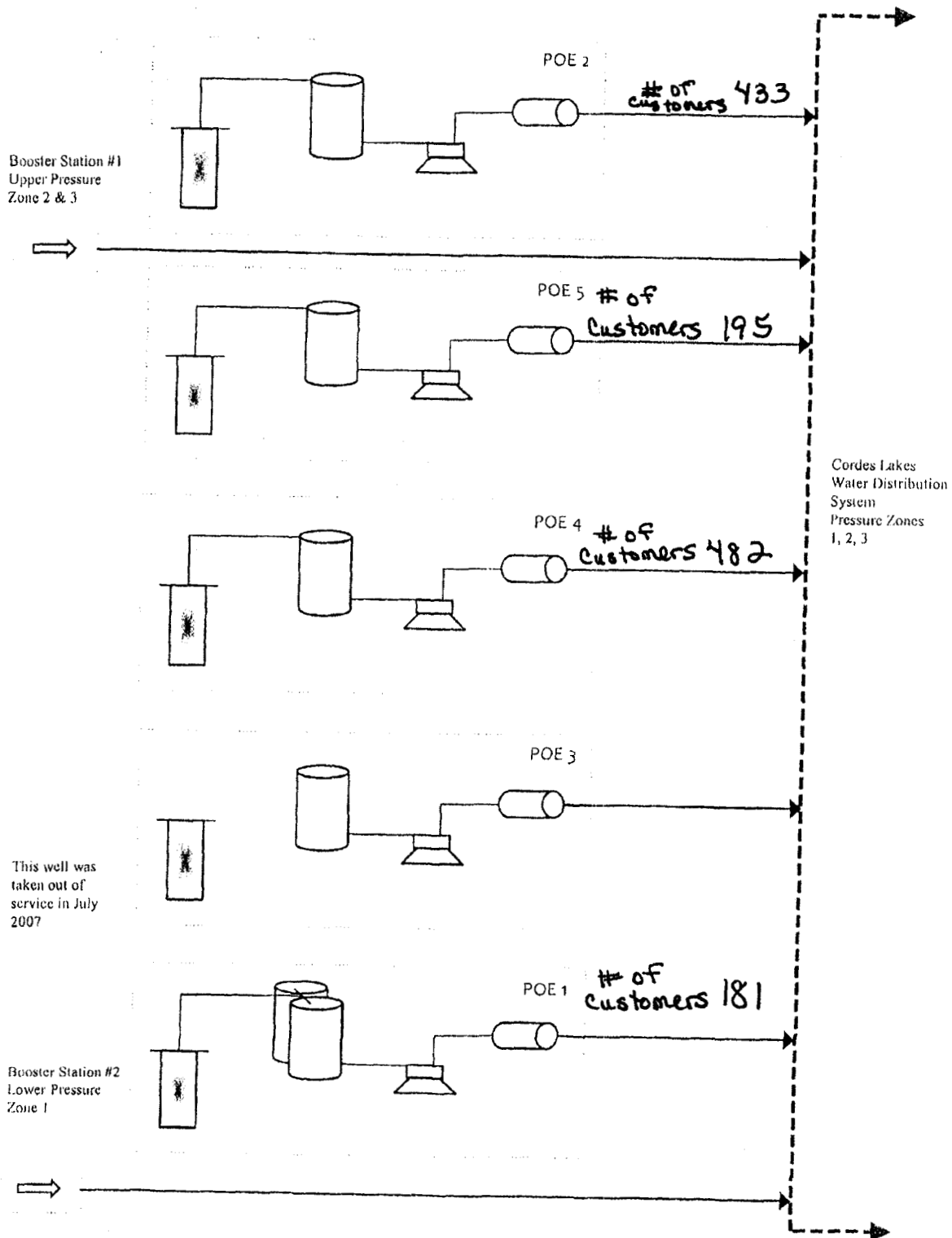
Year-to-date totals reflect all charges minus any refunds applied to your account.

License Renewal for ADEQ operator  
Permit Donald Ross and Richard Ross

(2012)



Booster Station #3  
was taken out of service  
in July 2007



American Leak Detection

P.O. Box 778384  
Henderson, Nevada 89077-8384  
(602) 242-8573  
Fax: (702)685-8291

# Estimate

| DATE      | ESTIMATE NO. |
|-----------|--------------|
| 1/26/2012 | 18           |

| NAME / ADDRESS   |
|--|
| Cordes Lake Water Company<br>Attn: Brad Folkman<br>20175 E. Stagecoach Trail<br>Mayer, Arizona 86333 |

|   |     |              | PROJECT |
|---|-----|--------------|---------|
| DESCRIPTION   | QTY | COST         | TOTAL   |
| ESTIMATE  |     | 0.00         | 0.00    |
| <p>This is an estimate for an electronic leak survey/detection for approximately 400,000 feet of 4" - 6" plastic main line pipe in addition to 1600 ft of 3/4" poly butylene service line. Access for detection are gate valves only. Listening equipment will be used to listen at all gate valves and any other point of contact to determine if any leak noise can be heard. All attempts will be made to locate leak but no guarantee can be given with plastic pipe.</p> <p>Approximately Two - two and one half (2 - 2 1/2 ) miles of plastic pipe can be surveyed in one day.</p> <p>Estimates are as follows:</p> <p>\$450/1st Hour &amp; \$175.00 each additional there after</p> <p>\$1,250.00 daily rate or \$750 half day rate</p> <p>After hours if needed @ \$225.00 per hour (due to traffic noise or other sound interference.)</p> <p>Thank You<br/>Bonnie Sherman<br/>American Leak Detection<br/>Sales Tax</p> |     | 5.72%        | 0.00    |
| WE APPRECIATE THE OPPORTUNITY TO BE OF SERVICE TO YOU.  |     | <b>TOTAL</b> | \$0.00  |



ARIZONA DEPARTMENT OF ENVIRONMENTAL QUALITY  
MONITORING ASSISTANCE PROGRAM  
ANNUAL SAMPLING FEE INVOICE

*entered*

\* Pursuant to A.R.S. § 49-113, interest will be charged if full payment is not received by the specified due date. If you dispute the amount listed, please contact ADEQ as soon as possible. To reduce interest costs on an unpaid invoice, you may remit an amount that you believe is not in dispute. However, if nonpayment is due to willful neglect, you may suffer an additional five percent penalty of up to twenty-five percent of the amount due for each month or fraction of a month the amount is past due.

If you have any questions about your invoice, contact W. Scott Steinhagen at (602) 771-4445 or toll-free within Arizona at (800) 234-5677, extension 771-4445.

Pursuant to A.R.S. § 49-360 F and A.A.C. R18-4-304 and R18-4-305, "The director shall establish fees for the monitoring assistance program to be collected from all public water systems..."

|   |                                    |
|---|------------------------------------|
| Owner Id #: 21236                                   | Invoice Number 67426               |
| To: CORDES LAKES WC<br>PO BOX 219<br>TEMPE AZ 85280 | Public Water System ID #: 13023    |
|   | Billing for Calendar Year: 2011    |
|   | Due Date: November 19, 2010        |
|   | Total Amount Due ..... \$ 3,621.84 |
| Amount Paid ..... \$                                |                                    |

↑ Keep the top portion for your records. ↑

ADEQ Federal Tax #866004791

↓ This entire bottom portion must be returned to ADEQ. ↓

ADEQ Federal Tax #866004791

Annual Sampling Fee Invoice

Invoice # 67426

|                                      |                                 |     |
|--------------------------------------|---------------------------------|-----|
| ES LAKES WC<br>X 219<br><br>AZ 85280 | Owner Id #: 21236               | MAP |
|                                      | Billing for Calendar Year: 2011 |     |
|                                      | Due Date: 11/19/2010            |     |

ANNUAL SAMPLING FEE WORKSHEET

|  |             |
|--|-------------|
| MAP systems)   | \$ 250.00   |
| ation in 2011 . . . . . 1,312 connections X \$ 2.57 . . . . .              | \$ 3,371.84 |
| Total Sampling Fee . . . . .   | \$ 3,621.84 |
| Plus Paid Interest Charges and/or Other Adjustments . . . . .              | \$ 0.00     |
| Plus Unpaid Interest Charges as of 10/05/2010 . . . . .                    | \$ 0.00     |
| Minus Payments Received and/or Other Adjustments . . . . .                 | \$ 0.00     |
| Amount Due . . . . .   | \$ 3,621.84 |
| Amount received by ADEQ (Make check payable to State of Arizona) . . . . . | \$          |

\* A \$12 fee will be charged for any check not honored by the bank.

Do not write below this line

Make your check or money order payable to State of Arizona  
THIS FORM MUST ACCOMPANY YOUR REMITTANCE.

Mail to: Arizona Department of Environmental Quality  
PO Box 18228  
Phoenix, AZ 85005

|               |
|---------------|
| Check Number: |
| Received:     |
| Postmarked:   |

CNS 10/05/2010



ARIZONA DEPARTMENT OF ENVIRONMENTAL QUALITY  
MONITORING ASSISTANCE PROGRAM  
ANNUAL SAMPLING FEE INVOICE



Pursuant to A.R.S. § 49-113, interest will be charged if full payment is not received by the specified due date. If you dispute the amount listed, please contact ADEQ as soon as possible. To reduce interest costs on an unpaid invoice, you may remit an amount that you believe is not in dispute. However, if nonpayment is due to willful neglect, you may suffer an additional five percent penalty of up to twenty-five percent of the amount due for each month or fraction of a month the amount is past due.

If you have any questions about your invoice, contact Mary Kaye Black at (602) 771-4518 or toll-free within Arizona at (800) 234-5677, extension 771-4518.

Pursuant to A.R.S. § 49-360 F and A.A.C. R18-4-304 and R18-4-305, "The director shall establish fees for the monitoring assistance program to be collected from all public water systems..."

|   |                                   |
|---|-----------------------------------|
| Owner Id #: 21236                                   | Invoice Number 68369              |
| To: CORDES LAKES WC<br>PO BOX 219<br>TEMPE AZ 85280 | Public Water System ID #: 13023   |
|   | Billing for Calendar Year: 2012   |
|   | Due Date: April 6, 2012           |
|   | Total Amount Due .....\$ 3,598.71 |
|   | Amount Paid .....\$               |

† Keep the top portion for your records. †

ADEQ Federal Tax #866004791

Due Date: 04/06/2012

ANNUAL SAMPLING FEE WORKSHEET

546

Fee (all MAP systems) .....\$ 250.00  
Connection in 2012 ..... 1,303 connections X \$ 2.57 .....\$ 3,348.71  
Total Sampling Fee .....\$ 3,598.71  
Plus Paid Interest Charges and/or Other Adjustments .....\$ 0.00  
Plus Unpaid Interest Charges as of 02/21/2012 .....\$ 0.00  
Minus Payments Received and/or Other Adjustments .....\$ 0.00  
Amount Due .....\$ 3,598.71  
Amount received by ADEQ (Make check payable to State of Arizona) .....\$



A \$12 fee will be charged for any check not honored by the bank.

Do not write below this line

Make your check or money order payable to State of Arizona  
THIS FORM MUST ACCOMPANY YOUR REMITTANCE.

Mail to: Arizona Department of Environmental Quality  
PO Box 18228  
Phoenix, AZ 85005

|                                 |
|---------------------------------|
| Check Number:                   |
| Received:                       |
| Postmarked:                     |
| Entered: CS3 02/17/2012 WM32247 |

**CORDES LAKES WATER COMPANY**  
**SCHEDULE H-5-1 (B)**

**W-02060A-12-0356**

| <b>BLOCK<br/>USAGE<br/>3/4 METERS</b> | <b>BILL<br/>COUNT</b> | <b>AVERAGE<br/>AMT<br/>FOR BLK</b> | <b>TOTAL<br/>AMT<br/>FOR BLK</b> |
|---------------------------------------|-----------------------|------------------------------------|----------------------------------|
| 0                                     | 986                   | \$ 11.00                           | \$ 10,846.00                     |
| 500                                   | 2072                  | \$ 12.40                           | \$ 25,692.80                     |
| 1500                                  | 2313                  | \$ 15.20                           | \$ 35,157.60                     |
| 2500                                  | 2203                  | \$ 18.00                           | \$ 39,654.00                     |
| 3500                                  | 1999                  | \$ 21.55                           | \$ 43,078.45                     |
| 4500                                  | 1548                  | \$ 25.85                           | \$ 40,015.80                     |
| 5500                                  | 1155                  | \$ 30.15                           | \$ 34,823.25                     |
| 6500                                  | 788                   | \$ 34.45                           | \$ 27,146.60                     |
| 7500                                  | 560                   | \$ 38.75                           | \$ 21,700.00                     |
| 8500                                  | 406                   | \$ 43.40                           | \$ 17,620.40                     |
| 9500                                  | 296                   | \$ 48.40                           | \$ 14,326.40                     |
| 10500                                 | 254                   | \$ 53.40                           | \$ 13,563.60                     |
| 11500                                 | 158                   | \$ 58.40                           | \$ 9,227.20                      |
| 12500                                 | 143                   | \$ 63.40                           | \$ 9,066.20                      |
| 13500                                 | 90                    | \$ 68.40                           | \$ 6,156.00                      |
| 14500                                 | 92                    | \$ 73.40                           | \$ 6,752.80                      |
| 15500                                 | 67                    | \$ 78.40                           | \$ 5,252.80                      |
| 16500                                 | 54                    | \$ 83.40                           | \$ 4,503.60                      |
| 17500                                 | 42                    | \$ 88.40                           | \$ 3,712.80                      |
| 18500                                 | 42                    | \$ 93.40                           | \$ 3,922.80                      |
| 19500                                 | 32                    | \$ 98.40                           | \$ 3,148.80                      |
| 22500                                 | 112                   | \$ 113.40                          | \$ 12,700.80                     |
| 27500                                 | 34                    | \$ 138.40                          | \$ 4,705.60                      |
| 32500                                 | 20                    | \$ 163.40                          | \$ 3,268.00                      |
| 37500                                 | 13                    | \$ 188.40                          | \$ 2,449.20                      |
| 45000                                 | 9                     | \$ 225.90                          | \$ 2,033.10                      |
| 62500                                 | 6                     | \$ 313.40                          | \$ 1,880.40                      |
| 87500                                 | 5                     | \$ 443.40                          | \$ 2,217.00                      |
| 0                                     |                       |                                    | \$ -                             |
|                                       |                       |                                    | \$ 404,622.00                    |

| BLOCK<br>USAGE<br>1IN METERS | BILL<br>COUNT | AVERAGE<br>AMT<br>FOR BLK | TOTAL<br>AMT<br>FOR BLK |
|------------------------------|---------------|---------------------------|-------------------------|
| 500                          | 13            | \$ 21.65                  | \$ 281.45               |
| 1500                         | 13            | \$ 25.95                  | \$ 337.35               |
| 2500                         | 8             | \$ 30.25                  | \$ 242.00               |
| 3500                         | 13            | \$ 34.55                  | \$ 449.15               |
| 4500                         | 11            | \$ 38.85                  | \$ 427.35               |
| 5500                         | 6             | \$ 43.15                  | \$ 258.90               |
| 6500                         | 4             | \$ 47.45                  | \$ 189.80               |
| 7500                         | 3             | \$ 51.75                  | \$ 155.25               |
| 8500                         | 1             | \$ 56.05                  | \$ 56.05                |
|                              |               |                           | \$ 2,397.30             |

| BLOCK<br>USAGE<br>2IN METERS | BILL<br>COUNT | AMT FOR<br>BLOCK |
|------------------------------|---------------|------------------|
| 60000-70000                  | 1             | \$ 360.00        |
| 70000-80000                  |               |                  |
| 80000-90000                  | 6             | \$ 2,630.00      |
| 90000-100000                 | 3             | \$ 1,463.00      |
| 100000+                      | 2             | \$ 1,088.00      |
|                              |               | \$ 5,541.00      |

3

**ORIGINAL**

RECEIVED  
AZ CORP COMMISSION  
DOCKET CONTROL  
**CORDES LAKES WATER COMPANY**  
2012 NOV 8 PM 12 49

**DOCKET NO W-02060A-12-0356**

**ADDITIONS TO RATE INCREASE APPLICATION**

**SUBMITTED NOVEMBER 8, 2012**

Arizona Corporation Commission  
**DOCKETED**  
NOV 08 2012

|             |           |
|-------------|-----------|
| DOCKETED BY | <i>DM</i> |
|-------------|-----------|



CORDES LAKES WATER COMPANY

DOCKET # W-02060A-12-0356

REQUEST FOR ADDITIONAL INFORMATION BY

MARY RIMBACK AND DEL SMITH

1. Clarification of current and proposed rate.
2. Expansion of Asset list to include listing of all increases, decreases and depreciation for years 2006 through test year (2011). This chart includes computer values and Corporation Commission Values as of 12/11/2006. Changes, Depreciation, Depreciation Rate, and Accumulated Depreciation.
3. Certificate of Public Notice as required.
4. The Public notice was printed in the Prescott Courier on October 31, 2012.
5. A Copy of the mailing on 11/2/2012, of 1320 First-class letters – all of which included the public notice.
6. A Copy of the Public Notice was posted in the office at Cordes Junction.

Certified by Neil Folkman

Signature 

**CORDES LAKES WATER COMPANY**  
**DOCKET NO W-02060A-12-0356**

**PER DECISION #70170**  
**MONTHLY USAGE CHARGE**

|              |          |
|--------------|----------|
| 3/4" METER   | \$11.00  |
| 1" METER     | \$19.50  |
| 1-1/2" METER | \$39.00  |
| 2" METER     | \$62.50  |
| 3" METER     | \$125.00 |
| 4" METER     | \$220.00 |
| 6" METER     | \$390.00 |

**CURRENT RATES**

**PROPOSED RATES**

|          |
|----------|
| \$13.50  |
| \$24.50  |
| \$48.75  |
| \$78.00  |
| \$156.00 |
| \$275.00 |
| \$485.00 |

**COMMODITY RATES**  
 (Per 1,000 Gallons)

**3/4" METER**  
 FROM 1 - 3,000 GALLONS  
 FROM 3,001 TO 8,000 GALLONS  
 OVER 8,000 GALLONS

|        |        |
|--------|--------|
| \$2.80 | \$3.30 |
| \$4.30 | \$5.25 |
| \$5.00 | \$6.00 |

**1" METER**  
 FROM 1 TO 18,000 GALLONS  
 OVER 18,000 GALLONS

|        |        |
|--------|--------|
| \$4.30 | \$5.25 |
| \$5.00 | \$6.00 |

**1-1/2" METER**  
 FROM 1 TO 43,500 GALLONS  
 OVER 43,500 GALLONS

|        |        |
|--------|--------|
| \$4.30 | \$5.25 |
| \$5.00 | \$6.00 |

**2" METER**  
 FROM 1 TO 75,000 GALLONS  
 OVER 75,000 GALLONS

|        |        |
|--------|--------|
| \$4.30 | \$5.25 |
| \$5.00 | \$6.00 |

|                           |        |  |        |
|---------------------------|--------|--|--------|
| 3" METER                  |        |  |        |
| FROM 1 TO 160,000 GALLONS | \$4.30 |  | \$5.25 |
| OVER 160,000 GALLONS      | \$5.00 |  | \$6.00 |

|                           |        |  |        |
|---------------------------|--------|--|--------|
| 4" METER                  |        |  |        |
| FROM 1 TO 290,000 GALLONS | \$4.30 |  | \$5.25 |
| OVER 290,000 GALLONS      | \$5.00 |  | \$6.00 |

|                           |        |  |        |
|---------------------------|--------|--|--------|
| 5" METER                  |        |  |        |
| FROM 1 TO 530,000 GALLONS | \$4.30 |  | \$5.25 |
| OVER 530,000 GALLONS      | \$5.00 |  | \$6.00 |

**SERVICE LINE AND METER INSTALLATION CHARGES:**  
(REFUNDABLE PURSUANT TO A.A.C. R14-2-405)

**PRESENT CHARGES**

**PROPOSED CHARGES**

|                   | PRESENT CHARGES     |              |              | PROPOSED CHARGES    |              |              |
|-------------------|---------------------|--------------|--------------|---------------------|--------------|--------------|
|                   | SERVICE LINE CHARGE | METER CHARGE | TOTAL CHARGE | SERVICE LINE CHARGE | METER CHARGE | TOTAL CHARGE |
| 5/8" X 3/4" METER | N/A                 | N/A          | N/A          | N/A                 | N/A          | N/A          |
| 3/4" METER        | \$355.00            | \$165.00     | \$520.00     | \$426.00            | \$198.00     | \$624.00     |
| 1" METER          | \$405.00            | \$205.00     | \$610.00     | \$486.00            | \$246.00     | \$732.00     |
| 1-1/2" METER      | \$440.00            | \$415.00     | \$855.00     | \$528.00            | \$498.00     | \$1,026.00   |
| 2" METER          | \$600.00            | \$915.00     | \$1,515.00   | \$720.00            | \$1,098.00   | \$1,818.00   |
| 3" METER          | \$775.00            | \$1,420.00   | \$2,195.00   | \$930.00            | \$1,764.00   | \$2,694.00   |
| 4" METER          | \$1,110.00          | \$2,250.00   | \$3,360.00   | \$1,332.00          | \$2,700.00   | \$4,032.00   |
| 6" METER          | \$1,670.00          | \$4,445.00   | \$6,115.00   | \$2,000.00          | \$5,350.00   | \$7,350.00   |

**SERVICE CHARGES:**

|                                       |         |         |
|---------------------------------------|---------|---------|
| ESTABLISHMENT                         | \$25.00 | \$30.00 |
| ESTABLISHMENT (AFTER HRS)             | \$35.00 | \$40.00 |
| RECONNECTION (DELINQUENT)             | \$15.00 | \$20.00 |
| RECONNECTION (DELINQUENT & AFTER HRS) | \$25.00 | \$30.00 |
| NSF CHECK                             | \$12.50 | \$15.00 |
| METER RE-READ                         | \$10.00 | \$12.00 |
| METER TEST (IF CORRECT)               | \$25.00 | \$30.00 |
| DEFERRED PAYMENT (PER MONTH)          | 1.50%   | 1.50%   |
| DEPOSIT AMOUNT                        | *       | *       |
| DEPOSIT INTEREST                      | *       | *       |
| REESTABLISHMENT (WITHIN 12 MONTHS)    | **      | **      |
| LATE CHARGE (PER MONTH)               | 1.50%   | 1.50%   |
| ROAD CUTTING OR BORING                | COST    | COST    |

\*PER COMMISSION RULE A.A.C. R-14-2-403(B)

\*\*NUMBER OF MONTHS OFF SYSTEM TIMES THE MONTHLY MINIMUM, PER COMMISSION RULE A.A.C. R-14-2-403(D).  
IN ADDITION TO THE COLLECTION OF REGULAR RATES, THE UTILITY WILL COLLECT FROM ITS CUSTOMERS A  
PROPORTIONATE SHARE OF ANY PRIVILEGE, SALES, USE, AND FRANCHISE TAX, PER COMMISSION RULE A.A.C. 14-2-409(D)(5).

CLWC-ASSETS-RATE INCREASE-CORDES SYSTEM  
clwc-assets-acc06

STRUCTURES AND IMPROVEMENTS

304

COMP \$ 17,846  
ACC-06 \$ 6,657  
DEPR 3.33%

|          | Changes | Assets   | Depr Exp | Acc Depr | Net      |
|----------|---------|----------|----------|----------|----------|
| 12/31/06 |         | \$ 6,657 |          | \$ 222   |          |
| 12/31/07 |         | \$ 6,657 | \$ 222   | \$ 444   | \$ 6,435 |
| 12/31/08 |         | \$ 6,657 | \$ 222   | \$ 665   | \$ 5,992 |
| 12/31/09 |         | \$ 6,657 | \$ 222   | \$ 887   | \$ 5,770 |
| 12/31/10 |         | \$ 6,657 | \$ 222   | \$ 1,109 | \$ 5,548 |

WELLS

307

COMP \$ 84,238  
ACC-06 \$ 138,155  
DEPR 3.33%

|          | Changes   | Assets     | Depr Exp | Acc Depr  | Net        |
|----------|-----------|------------|----------|-----------|------------|
| 12/31/06 |           | \$ 138,155 |          | \$ 4,601  |            |
| 12/31/07 |           | \$ 138,155 | \$ 4,601 | \$ 9,202  | \$ 133,554 |
| 12/31/08 | \$ 29,193 | \$ 167,348 | \$ 5,573 | \$ 14,774 | \$ 152,574 |
| 12/31/09 |           | \$ 167,348 | \$ 5,573 | \$ 20,347 | \$ 147,001 |
| 12/31/10 |           | \$ 167,348 | \$ 5,573 | \$ 25,920 | \$ 141,428 |

PUMPS

311

COMP \$ 109,753  
ACC-06 \$ 10,558  
DEPR 12.50%

|          | Changes   | Assets    | Depr Exp | Acc Depr  | Net       |
|----------|-----------|-----------|----------|-----------|-----------|
| 12/31/06 |           | \$ 10,558 |          | \$ 1,320  |           |
| 12/31/07 |           | \$ 10,558 | \$ 1,320 | \$ 2,640  | \$ 9,238  |
| 12/31/08 | \$ 16,030 | \$ 26,588 | \$ 3,324 | \$ 5,963  | \$ 20,625 |
| 12/31/09 |           | \$ 26,588 | \$ 3,324 | \$ 9,287  | \$ 17,301 |
| 12/31/10 |           | \$ 26,588 | \$ 3,324 | \$ 12,611 | \$ 13,977 |

TANKS

330

COMP \$ 263,452  
ACC-06 \$ 137,243  
DEPR 2.22%

| Changes | Assets | Depr Exp | Acc Depr | Net |
|---------|--------|----------|----------|-----|
|---------|--------|----------|----------|-----|

|          |          |            |             |           |            |
|----------|----------|------------|-------------|-----------|------------|
| 12/31/06 |          | \$ 137,243 |             | \$ 3,047  |            |
| 12/31/07 |          | \$ 137,243 | \$ 3,047    | \$ 6,094  | \$ 134,196 |
| 12/31/08 | \$ 4,389 | \$ 141,632 | \$ 3,144    | \$ 9,238  | \$ 132,394 |
| 12/31/09 |          | \$ 141,632 | \$ 3,144.00 | \$ 12,382 | \$ 129,250 |
| 12/31/10 |          | \$ 141,632 | \$ 3,144.00 | \$ 15,526 | \$ 126,106 |

#### WATERLINES

331

COMP \$ 263,452  
ACC-06 \$ 572,234  
DEPR 2.22%

|          | Changes      | Assets     | Depr Exp | Acc Depr | Net       |
|----------|--------------|------------|----------|----------|-----------|
| 12/31/06 |              | \$ 572,234 |          |          |           |
| 12/31/06 | \$ (562,790) | \$ 9,444   | \$ 210   | \$ 210   | \$ 8,899  |
| 12/31/07 | \$ 5,655     | \$ 15,099  | \$ 335   | \$ 545   | \$ 14,554 |
| 12/31/08 | \$ -         | \$ 15,099  | \$ 335   | \$ 880   | \$ 14,219 |
| 12/31/09 |              | \$ 15,099  | \$ 335   | \$ 1,215 | \$ 13,884 |
| 12/31/10 |              | \$ 15,099  | \$ 335   | \$ 1,550 | \$ 13,549 |

#### SERVICES

333

COMP \$ -  
ACC-06 \$ 19,350  
DEPR 3.33%

|          | Changes | Assets    | Depr Exp | Acc Depr  | Net  |
|----------|---------|-----------|----------|-----------|------|
| 12/31/06 |         | \$ 19,350 |          | \$ 19,350 | 0    |
| 12/31/07 | \$ -    | \$ 19,350 | \$ -     | \$ 19,350 | \$ - |

XXX FULLY DEPR--- NEW ENTRIES INCLUDED W/METERS

#### METERS AND SERVICES

334

COMP \$ 203,283  
ACC-06 \$ 35,589  
DEPR 8.30%

|          | Changes   | Assets    | Depr Exp | Acc Depr  | Net       |
|----------|-----------|-----------|----------|-----------|-----------|
| 12/31/06 |           | \$ 35,589 |          | \$ 3,908  |           |
| 12/31/07 | \$ 14,422 | \$ 50,011 | \$ 4,151 | \$ 8,059  | \$ 41,952 |
| 12/31/08 | \$ 16,143 | \$ 66,154 | \$ 5,491 | \$ 13,550 | \$ 52,604 |
| 12/31/09 | \$ 3,523  | \$ 69,677 | \$ 5,783 | \$ 19,333 | \$ 50,344 |
| 12/31/10 | \$ 1,165  | \$ 70,842 | \$ 5,880 | \$ 25,213 | \$ 45,629 |

#### MISCELLANEOUS EQUIPMENT

339

COMP \$ 43,987

ACC-06 \$ 54,149  
DEPR 6.67%

|          | Changes  | Assets    | Depr Exp | Acc Depr  | Net       |
|----------|----------|-----------|----------|-----------|-----------|
| 12/31/06 |          | \$ 54,149 |          | \$ 3,612  |           |
| 12/31/07 |          | \$ 54,149 | \$ 3,612 | \$ 7,224  | \$ 46,925 |
| 12/31/08 | \$ 5,166 | \$ 59,315 | \$ 3,956 | \$ 11,180 | \$ 48,135 |
| 12/31/09 |          | \$ 59,315 | \$ 3,956 | \$ 15,136 | \$ 44,179 |
| 12/31/10 |          | \$ 59,315 | \$ 3,956 | \$ 19,092 | \$ 40,223 |

#### TRANSPORTATION EQUIPMENT

341

COMP \$ 85,038  
ACC-06 \$ 69,049  
DEPR 20.00%

|          | Changes | Assets    | Depr Exp  | Acc Depr  | Net       |
|----------|---------|-----------|-----------|-----------|-----------|
| 12/31/06 |         | \$ 69,049 |           | \$ 13,810 | \$ 55,239 |
| 12/31/07 |         | \$ 69,049 | \$ 13,810 | \$ 27,620 | \$ 41,429 |
| 12/31/08 |         | \$ 69,049 | \$ 13,810 | \$ 41,430 | \$ 27,619 |
| 12/31/09 |         | \$ 69,049 | \$ 13,810 | \$ 55,240 | \$ 13,809 |
| 12/31/10 |         | \$ 69,049 | \$ 13,810 | \$ 69,049 | \$ -      |

#### OFFICE EQUIPMENT

340

COMP \$ 11,767  
ACC-06 \$ 4,490  
DEPR 6.67%

|          | Changes | Assets   | Depr Exp | Acc Depr | Net      |
|----------|---------|----------|----------|----------|----------|
| 12/31/06 |         | \$ 4,490 |          | \$ 299   | \$ 4,191 |
| 12/31/07 |         | \$ 4,490 | \$ 299   | \$ 598   | \$ 3,892 |
| 12/31/08 |         | \$ 4,490 | \$ 299   | \$ 898   | \$ 3,592 |
| 12/31/09 |         | \$ 4,490 | \$ 299   | \$ 1,197 | \$ 3,293 |
| 12/31/10 |         | \$ 4,490 | \$ 299   | \$ 1,496 | \$ 2,994 |

#### LAND

303

COMP \$ 35,665  
ACC-06 \$ 35,665  
DEPR 0.00%

|          | Changes | Assets    | Depr Exp | Acc Depr | Net       |
|----------|---------|-----------|----------|----------|-----------|
| 12/31/06 |         | \$ 35,665 |          |          |           |
| 12/31/07 |         | \$ 35,665 | \$ -     | \$ -     | \$ 35,665 |
| 12/31/08 |         | \$ 35,665 | \$ -     | \$ -     | \$ 35,665 |
| 12/31/09 |         | \$ 35,665 | \$ -     | \$ -     | \$ 35,665 |
| 12/31/10 |         | \$ 35,665 | \$ -     | \$ -     | \$ 35,665 |

|    |         |                                   |
|----|---------|-----------------------------------|
| \$ | 616,035 | TOTAL                             |
| \$ | 190,917 | ACCU DEPR                         |
| \$ | 619,566 | ACCU DEPR 2006                    |
| \$ | 128,729 | AMOUNT TO BALANCE TO ACC\$748,295 |



**PUBLIC NOTICE OF HEARING ON THE RATE APPLICATION**  
**OF CORDES LAKES WATER COMPANY**  
**(DOCKET NO. W-O2060A-12-0356)**

On August 6, 2012, Cordes Lakes Water Company ("Company") filed an application with the Arizona Corporation Commission for an increase in its rates and charges. Copies of the Company's application and proposed tariffs are available at its office and the Commission's offices for public inspection during regular business hours.

The Commission will hold a public hearing on this matter beginning **March 19, 2013**, at 9:30 a.m. at the Commission's offices, 1200 West Washington Street, Phoenix, Arizona. Public comments will be taken on the first day of the hearing.

The law provides for an open public hearing at which, under appropriate circumstances, interested parties may intervene. Intervention shall be permitted to any person entitled by law to intervene and having a direct and substantial interest in the matter. Persons desiring to intervene must file a written motion to intervene with the Commission no later than **November 23, 2012**. The motion to intervene must be sent to the Company or its counsel and to all parties of record, and shall contain the following:

1. The name, address, and telephone number of the proposed intervenor and of any party upon whom service of documents is to be made if different from the intervenor.
2. A short statement of the proposed intervenor's interest in the proceeding (e.g., a customer of the company, a shareholder of the Company, etc.).
3. A statement certifying that a copy of the motion to intervene has been mailed to the Company or its counsel and to all parties of record in the case.

The granting of intervention, among other things, entitles a party to present sworn evidence at the hearing and to cross-examine other witnesses. However, failure to intervene will not preclude any interested person or entity from appearing at the hearing and providing public comment on the application or from filing written comments in the record of the case. You will not receive any further notice of this proceeding unless you request it.

If you have any questions about this application, or want further information on intervention, you may contact the Consumer Services Section of the Commission at 1200 West Washington Street, Phoenix, Arizona 85007 or call 1-800-222-7000 or 602-542-4251.

The Commission does not discriminate on the basis of disability in admission to its public meetings. Persons with a disability may request a reasonable accommodation such as a sign language interpreter, as well as request this document in an alternative format, by contacting Shaylin Bernal at [SABernal@azcc.gov](mailto:SABernal@azcc.gov), voice phone number 602-542-3931. Requests should be made as early as possible to allow time to arrange the accommodation.

## AFFIDAVIT OF PUBLICATION

STATE OF ARIZONA     )  
County of Yavapai     ) ss.

I, Aileen Kemper, being first duly sworn on her oath says:  
That she is the Legals Clerk of PRESCOTT NEWSPAPERS, INC., an  
Arizona corporation, which owns and publishes THE DAILY  
COURIER, a Daily Newspaper published in the City of Prescott, County  
of Yavapai that the notice attached hereto, namely,

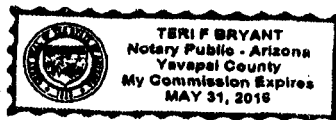
**CORDES LAKES WATER CO.  
PUBLIC NOTICE OF HEARING ON THE RATE APPLICATION  
DOCKET NO. W-02060A-12-0356**

has, to the personal knowledge of affidavit, been published in the news  
paper aforesaid, according to law, on 31 day of OCT, 2012 to 31 day of  
OCT, 2012 both inclusive without change, interruption or omission,  
amounting in all 1 insertions, made on the following dates:  
OCT 31, 2012

By: \_\_\_\_\_  
Dated this 31 Day of OCT, 2012

By: \_\_\_\_\_  
Notary Public

My commission expires:



PUBLIC NOTICE OF HEARING ON  
THE RATE APPLICATION  
OF CORDES LAKES  
WATER COMPANY

(DOCKET NO. W-02060A-12-0356)

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with the Arizona Corporation Commission for an increase in its rates and charges. Copies of the Company's application and proposed tariffs are available at its office and the Commission's offices for public inspection during regular business hours.

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1. The name, address, and telephone number of the proposed intervenor and of any party upon whom service of documents is to be made if different from the intervenor.
2. A short statement of the proposed intervenor's interest in the proceeding (e.g., a customer of the company, a shareholder of the Company, etc.).
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ITC PUB Oct 31, 2012

Friday, 26 October 2012

INVOICE: CPP320149 INVOICE DATE: 11/02/2012  
RECEIPT FROM: Cordes Lakes Water Company CLIENT ID.: 171077  
AMOUNT: \*\*\*\*\*\$102.19\*\*\*\*\* PAYMENT MODE: VISA  
NOTE: W-O2060A-12-0356

BY: Aileen Kemper (AAK)

Friday, 26 October 2012

INVOICE: CPP320149 INVOICE DATE: 11/02/2012  
RECEIPT FROM: Cordes Lakes Water Company CLIENT ID.: 171077  
AMOUNT: \*\*\*\*\*\$102.19\*\*\*\*\* PAYMENT MODE: VISA  
NOTE: W-O2060A-12-0356

BY: Aileen Kemper (AAK)

|  |  |
|--|--|
| <b>Company Detail</b>                              |  |
| Company Name                                       | CORDES LAKES WATER CO.                           |
| Address  | 1532 N JOHNSON AVE<br>EL CAJON, CA 92020-1618    |
| Contact Name                                       | MICHAEL FOLKMAN                                  |
| Phone Number                                       | (619)579-0520                                    |
| Profit Indicator                                   | P  |
| <b>PS Form 3607R - Mailing Transaction Receipt</b> |  |
| Account Holder Account Number                      | 1841904  |
| Account Holder Permit Number                       | 67   |
| Account Holder Permit Type                         | PI   |
| Account Holder CRID                                | 4023435  |
| Post Office of Permit                              | El Cajon CA 92020-9998                           |
| Post Office of Mailing                             | El Cajon CA 92020-9998                           |
| Post Office of Permit Cost Center                  | 052382-0957                                      |
| Post Office of Mailing Cost Center                 | 052382-0957                                      |
| Mailing Agent Name                                 |  |
| Mailing Agent CRID                                 |  |
| Mail Owner Name                                    |  |
| Mail Owner CRID                                    |  |
| JOB ID   | MANUAL   |
| Customer Reference ID                              |  |
| CAPS Transaction Number                            | N/A  |
| Class of Mail                                      | First-Class Mail and First-Class Package Service |
| Processing Category                                | Letters (may include Postcards)                  |
| Postage Statement ID                               | 148516428  |
| Mailing Group ID                                   | 113929469  |
| Mailer's Mailing Date                              | 11/02/2012                                       |
| Total Pieces                                       | 1,290 pcs.                                       |
| Weight of a single-piece                           | 0.0420 lbs.                                      |
| Total Weight                                       | 54.1800 lbs.                                     |
| Total Number of Containers                         | 7  |
| Total Postage (Without Incentive/Fee)              | \$ 458.82  |
| Incentive/Discount                                 | \$ 0.00  |
| Fee  | \$ 0.00  |
| Total Adjusted Postage                             | \$ 458.82  |
| Payment Date and Time                              | 11/02/2012 11:23                                 |
| Payment Transaction Number                         | 201230713230191M0                                |
| Mailer Figures Adjusted?                           | No   |
| Person authorizing adjustment                      |  |
| Name   |  |
| Phone Number                                       |  |
| Acceptance Site Mailer ID                          |  |
| Clerk Initials                                     | CAN  |
| Mail Arrival Date and Time                         | 11/02/2012 11:21                                 |

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2013 MAY -3

EXHIBIT

A-2  
STIPULATED

**FENNEMORE CRAIG**  
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Attorneys for Cordes Lakes Water Company

**BEFORE THE ARIZONA CORPORATION COMMISSION**

IN THE MATTER OF THE  
APPLICATION OF CORDES LAKES  
WATER COMPANY FOR APPROVAL  
OF A RATE INCREASE

DOCKET NO: W-02060A-12-0356


**NOTICE OF FILING REBUTTAL  
TESTIMONY**

Cordes Lakes Water Company hereby submits this Notice of Filing Rebuttal  
Testimony of Matthew Rowell on behalf of Cordes Lakes Water Company in the above-  
captioned docket.

RESPECTFULLY SUBMITTED this 3<sup>rd</sup> day of May, 2013.

FENNEMORE CRAIG, P.C.

By




Patrick J. Black  
2394 E. Camelback Road, Suite 600  
Phoenix, Arizona 85016  
Attorneys for Cordes Lakes Water Co.

ORIGINAL and thirteen (13) copies of the  
foregoing, were filed  
this 3<sup>rd</sup> day of May, 2013, to:

Docket Control  
Arizona Corporation Commission  
1200 W. Washington St.  
Phoenix, AZ 85007

Arizona Corporation Commission  
**DOCKETED**

MAY 3 2013

DOCKETED BY 

1 COPY hand-delivered/mailed/mailed  
this 3<sup>rd</sup> day of May, 2013 to:

2 Marc E. Stern, Esq.  
3 Administrative Law Judge  
Hearing Division  
4 Arizona Corporation Commission  
1200 W. Washington St.  
5 Phoenix, AZ 85007

6 Robin Mitchell, Esq.  
Legal Division  
7 Arizona Corporation Commission  
1200 W. Washington St.  
8 Phoenix, AZ 85007

9 Steven M. Olea  
Director, Utilities Division  
10 Arizona Corporation Commission  
1200 West Washington  
11 Phoenix, AZ 85007

12  
13 By: W. M. J. [Signature]

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1 FENNEMORE CRAIG, P.C.  
2 Patrick J. Black (No. 017141)  
3 2394 East Camelback Road  
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5 Phoenix, Arizona 85016  
6 Attorneys for Cordes Lakes Water Company

7  
8 **BEFORE THE ARIZONA CORPORATION COMMISSION**

9 IN THE MATTER OF THE  
10 APPLICATION OF CORDES LAKES  
11 WATER COMPANY FOR APPROVAL  
12 OF A RATE INCREASE.

DOCKET NO: W-02060A-12-0356

13  
14  
15  
16 **REBUTTAL TESTIMONY OF**  
17 **MATTHEW ROWELL**

18 **May 3, 2013**  
19  
20  
21  
22  
23  
24  
25  
26



- 1    **I.    INTRODUCTION.**
- 2    **Q.    PLEASE STATE YOUR NAME AND BUSINESS ADDRESS?**
- 3    A.    My name is Matthew Rowell. My business address is PO Box 51628, Phoenix,
- 4        Arizona.
- 5    **Q.    BY WHOM ARE YOU EMPLOYED AND WHAT ARE YOUR DUTIES**
- 6        **AND RESPONSIBILITIES?**
- 7    A.    I am a managing member of Desert Mountain Analytical Services ("DMAS") a
- 8        consulting firm specializing in utility regulatory matters. In that capacity I have
- 9        provided testimony regarding various utility regulatory issues before the Arizona
- 10       Corporation Commission ("Commission").
- 11   **Q.    PLEASE STATE YOUR BACKGROUND AND QUALIFICATIONS IN THE**
- 12        **FIELD OF UTILITY REGULATION.**
- 13   A.    A statement of my qualifications is attached as Exhibit 1 to this testimony.
- 14   **Q.    WHAT IS THE PURPOSE OF YOUR TESTIMONY?**
- 15   A.    This testimony responds to Staff's February 13, 2013 Testimony in this docket. It
- 16        also corrects some deficiencies in the Company's original application.
- 17   **Q.    PLEASE SUMMARIZE YOUR TESTIMONY.**
- 18   A.    This testimony deals with the following issues:
- 19        • Cost of Capital
- 20        • The Company's CIAC balance
- 21        • Real Property Included in Rate Base
- 22        • The Company's bad debt expense
- 23        • Staff's plant disallowance based on its analysis of provided invoices
- 24        • Post Test Year Plant
- 25        • Accounting Expenses
- 26        • Purchased Power Expenses
- Revenue Requirement and Rate Design
- The Company's requested surcharges
- Best Management Practices ("BMPs")
- Future CC&N application

1 This testimony establishes that Staff's recommended return on equity for Cordes  
2 Lakes is far too low to be reasonable. A return on equity of 10.55% is shown to be  
3 consistent with recent Commission practice and with the standards established by  
4 the *Hope and Bluefield* Supreme Court decisions<sup>1</sup> regarding regulated rates of  
5 returns.

6 While the Company accepts most of Staff's adjustments, the reversal of two  
7 adjustments (Rate Base adjustments #3 and #5) and changes to information  
8 included in the original application now results in a rate base considerably higher  
9 than that recommended by Staff.

10 The above summarized changes result in a revenue requirement of  
11 \$470,807. This is an increase of \$50,271 or 12%. The median residential customer  
12 will experience an increase of \$2.70 per month.

13 Admittedly, some of the issues that require correction stem from the  
14 Company's application and are not necessarily the result of Staff's adjustments  
15 (e.g. bad debt expense.) The owners of Cordes Lakes are not as knowledgeable or  
16 experienced with ratemaking and ratemaking principles as some of their  
17 counterparts. Their attempt to put this case together without outside assistance was  
18 done in order to minimize costs, but it became readily apparent that using a 'short  
19 form' process intended for Class D and E utilities was to the Company's detriment.  
20 Similarly, Staff's decision to declare the application sufficient when it still had  
21 obvious deficiencies was no doubt made with good intentions, but it has lead to an  
22 incomplete analysis that does not benefit either the Company or its customers. The  
23 recommendations in this testimony address the most glaring problems with the  
24 application and Staff's recommendations.

25 <sup>1</sup> *Fed. Power Comm'n et al. v. Hope Natural Gas Co.*, (320 U.S. 591) and *Bluefield Water Works*  
26 *v. Pub. Serv. Comm'n*, 262 U.S. 679 (1923).

1 **II. COST OF CAPITAL**

2 **Q. PLEASE SUMMARIZE YOUR COST OF CAPITAL TESTIMONY.**

3 A. I do not present a full cost of capital analysis here. Given the timing of my  
4 involvement in this case, and the desire to limit the rate case expense, I will not be  
5 providing the customary 40-page detailed and complex analysis as Staff chose to  
6 do. Rather I will point out some significant flaws in Staff's analysis and present a  
7 basic argument as to why a return of 10.55% is reasonable for Cordes Lakes.

8 **Q. DO YOU AGREE WITH STAFF'S RECOMMENDATIONS REGARDING**  
9 **CAPITAL STRUCTURE?**

10 A. Yes. The Company's capital structure is 100% equity.

11 **Q. WHAT IS THE BIGGEST ISSUE WITH STAFF'S COST OF CAPITAL**  
12 **RECOMMENDATIONS?**

13 A. The biggest issue with Staff's cost of capital analysis is that it is inconsistent with  
14 the standards established by the *Hope and Bluefield* Supreme Court decisions<sup>2</sup>  
15 regarding regulated rates of returns ("*Hope and Bluefield*".) The *Hope and*  
16 *Bluefield* decisions are recognized nationally as establishing the standards under  
17 which regulated utility rates of return are determined. In a recent case, the  
18 Commission reaffirmed its view that *Hope and Bluefield* are foundational.<sup>3</sup>

19 The requirements of *Hope and Bluefield* can be summarized as follows:<sup>4</sup>

- 20 1. Commensurate Earnings: A utility is entitled to a return similar to  
21 that being earned by other enterprises with similar risks.

22  
23 <sup>2</sup> *Fed. Power Comm'n e. al. v. Hope Natural Gas Co.*, (320 U.S. 591) and *Bluefield Water Works*  
*v. Pub. Serv. Comm'n*, 262 U.S. 679 (1923)

24 <sup>3</sup> See Arizona Water Company Docket No. W-01445A-11-0310, Decision No. 73736 (February  
25 20, 2013) at 42 line 27.

26 <sup>4</sup> This summary follows Parcell, David C., *The Cost of Capital - A Practitioner's Guide* (2010  
Edition), p. 26,30.

2. Financial Integrity: A utility is entitled to a return level reasonably sufficient to assure financial soundness.
3. Capital Attraction: A utility is entitled to a return sufficient to support its credit and raise capital.
4. Changing Level of Returns: A fair return can change along with economic conditions and capital markets.
5. "End Result" Doctrine: How the rate of return and rate base are determined are not important as long as the end result is reasonable.

Staff's analysis fails to satisfy any of the above criteria. I will explain why Staff's analysis fails to satisfy these criteria in turn:

1. Commensurate Earnings: Staff makes no attempt to evaluate the earnings of other companies with similar risk profiles as Cordes Lakes. Staff's analysis is based solely on *estimates* of investor *expectations* derived from highly stylized theoretical models. The inputs into these models are derived from companies whose risk profile is substantially different from Cordes Lakes. Cordes Lakes is *less than one half of one percent* of the size of the *smallest* utility in Staff's sample.
2. Financial Integrity: Staff's cost of capital analysis makes no attempt to address the financial integrity of Cordes Lakes. Cordes Lakes is currently struggling financially and faces the need for substantial capital improvements (as verified by Staff's engineering witness<sup>5</sup>). Staff's cost of capital witness makes no mention of Cordes Lakes financial condition or of its need to deploy capital.

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<sup>5</sup> See Exhibit DS to the Direct Testimony of Del Smith at page 8.

- 1                   3.     Capital Attraction: Staff's proposed revenue requirement is in no  
2                   way sufficient for Cordes Lakes to attract the necessary capital.  
3                   Cordes Lakes is in need of substantial capital improvements (verified  
4                   by Staff's engineering witness<sup>6</sup>) and no rational investor would  
5                   provide that capital based on Staff's recommended revenue  
6                   requirement.
- 7                   4.     Changing Level of Returns: Staff's recommended returns vary based  
8                   on day to day movements in the stock market and on daily changes in  
9                   the interest rates on US Treasury bills. While theoretically this  
10                  analysis accounts for changes in the capital markets, in practice it in  
11                  no way reflects the reality of the capital markets in a meaningful way.  
12                  Staff's analysis does not address general economic conditions at all.
- 13                 5.     "End Result" Doctrine: Staff actually seems to employ the opposite  
14                  of the end results doctrine. Staff appears to be more concerned with  
15                  the process than with the reasonableness of the end results. Staff's  
16                  recommended revenue requirement provides no relief for Cordes  
17                  Lakes, which is financially challenged and in need of substantial  
18                  capital investment in order to continue providing its customers with  
19                  safe, adequate water utility service at reasonable rates.

20     **Q.     DO YOU HAVE ANY MORE SPECIFIC CRITICISMS OF STAFF'S COST**  
21     **OF CAPITAL ANALYSIS?**

22     A.     Yes. Staff's cost of equity estimate is derived from averaging the result of four  
23             different models:

---

24  
25  
26     <sup>6</sup> Ibid.

|                            |              |
|----------------------------|--------------|
| <b>Historical MRP CAPM</b> | <b>6.4%</b>  |
| <b>Current MRP CAPM</b>    | <b>10.0%</b> |
| <b>Constant Growth DCF</b> | <b>8.1%</b>  |
| <b>Multi-Stage DCF</b>     | <b>9.5%</b>  |

While I have issues with each of these models, in order to cut down on rate case expense, I will limit my discussion to Staff's use of the Historical Market Risk Premium ("MRP") CAPM.<sup>7</sup> The result of Staff's Historical MRP CAPM (6.4%) is so low as to be unreasonable on its face. I have examined the actual returns on equity accruing to the companies in Staff's sample and 6.4% is well below what any of them are actually earning. Including such an unreasonable result in the analysis is not appropriate.

**Q. WHY IS STAFF'S HISTORICAL MRP CAPM SO LOW?**

A. To answer this, I must first explain the mathematics of the CAPM. The CAPM is based on the highly unrealistic and unsupported proposition that investors care only about three variables: The risk free rate of return ("RF"), Beta and the Market Risk Premium ("MRP".) Expressed as an equation:

$$(1) \quad \text{Expected Cost of Equity} = \text{RF} + \text{Beta} * \text{MRP}$$

The Market Risk Premium ("MRP") is equal to the Overall Rate of Return on All Assets ("Market Return") minus the risk free rate of return ("RF"):

$$(2) \quad \text{MRP} = \text{Market Return} - \text{RF}$$

Substituting (2) into (1) we see that the Risk Free Rate of Return actually occurs twice in the CAPM:

$$(3) \quad \text{Expected Cost of Equity} = \text{RF} + \text{Beta} * (\text{Market Return} - \text{RF})$$

High school algebra tells us that when a variable appears more than once in an equation, it should be assigned the same number (because you can't "solve for X")

<sup>7</sup> CAPM is an acronym for Capital Asset Pricing Model.

1 if X is two different numbers.) Staff abandons this simple logic and plugs in two  
2 different numbers for RF in the above equation. In the first instance (just after the  
3 equal sign) where RF has a positive impact, Staff plugs in a low estimate of RF  
4 (1.29%). However, in the second instance (the last item in the equation) where RF  
5 has a negative impact, Staff plugs in a high estimate of RF (4.66%).

6 Notwithstanding the metaphysical question of how the Risk Free Rate of  
7 Return can be two different numbers at the same time, it is instructive to swap  
8 Staff's two estimates of RF to demonstrate how its numbers can be manipulated to  
9 lower the CAPM. For instance, if we put Staff's high estimate (4.66%) at the front  
10 end of the equation, and their low estimate (1.29%) at the back end, the result is  
11 12.18%. Similarly, if we plug in either of Staff's estimates of RF consistently we  
12 get significantly higher results than Staff's 6.4%.

13 **Q. DOES STAFF OFFER ANY EXPLANATION AS TO WHY IT USES TWO**  
14 **DIFFERENT ESTIMATES OF RF IN THE SAME EQUATION?**

15 A. No.

16 **Q. WHAT ARE THE ACTUAL RETURNS ON EQUITY BEING EARNED BY**  
17 **THE COMPANIES IN STAFF'S SAMPLE?**

18 A. The actual returns on equity earned by the companies in Staff's sample in 2012 are:

19

|                       |        |
|-----------------------|--------|
| American States Water | 11.91% |
| California Water      | 10.31% |
| Aqua America          | 14.18% |
| Connecticut Water     | 7.33%  |
| Middlesex Water       | 7.78%  |
| SJW Corp              | 8.13%  |

20  
21  
22  
23

24 The simple average of the above numbers is 9.94%. Calculating a weighted  
25 average based on the equity in the capital structure of the above companies results  
26

1 in an ROE of 11.82%. Both of these numbers are well above Staff's  
2 recommendation of 9.1%.

3 More importantly, Cordes Lakes has a much less favorable risk profile than  
4 any of the above companies. Accordingly, any cost of equity analysis based on  
5 these companies should include a significant risk premium (a point which Staff  
6 apparently agrees with since they include a 60 basis point premium in their  
7 analysis).

8 Alternatively, a return on equity based on the ROEs of companies in a  
9 similar situation as Cordes Lakes should be used.

10 **Q. HAS THE COMMISSION RECENTLY DECIDED A RATE CASE FOR A**  
11 **COMPANY SIMILAR TO CORDES LAKES?**

12 **A.** On February 20, 2013 the Commission issued Decision No. 73736 in the Arizona  
13 Water Company Eastern Group ("AMC") rate case. AWC is much larger than  
14 Cordes Lakes, but it's Eastern Group is quite small relative to the companies in  
15 Staff's sample. Like Cordes Lakes, AWC is faced with the need for substantial  
16 rehabilitation of its older plant. In that case, relying on the principles laid out in the  
17 *Hope and Bluefield* decisions, the Commission adopted a return on equity of  
18 10.55%.

19 Given that Cordes Lakes is in a very similar situation to AWC's Eastern  
20 Group, it is appropriate to allow the same return on equity for Cordes Lakes. Also,  
21 the End Results Doctrine discussed above leads to the same conclusion. A return  
22 on equity of 10.55%, along with the other recommendations in this testimony,  
23 provides for a very reasonable end result. Cordes Lakes' customers will  
24 experience a very manageable increase (\$2.70 per month for the median residential  
25 customer) to what is currently a low monthly bill (the current median Cordes Lakes  
26 Customer's bill is \$19.78 per month.) The increase proposed herein will greatly



1 enhance Cordes Lakes' financial viability and allow it to begin dealing with  
2 substantial capital deployment needs, with minimal impact to its customers.

3 **III. CIAC BALANCE**

4 **Q. PLEASE DISCUSS THE ISSUE REGARDING THE COMPANY'S CIAC**  
5 **BALANCE.**

6 A. Staff is recommending a CIAC balance of \$76,247 for Cordes Lakes. Staff further  
7 recommends that this CIAC balance should never be amortized. These  
8 recommendations are based on Staff's interpretation of the Commission's order in  
9 the Company's 1984 rate case (Decision No. 54526.) I believe that Staff's  
10 recommendation is based on an incorrect interpretation of Decision No. 54526.  
11 Furthermore, even if Staff was interpreting Decision No. 54526 correctly, the  
12 Commission's view of CIAC has evolved substantially since 1985. Given current  
13 Commission practices, a non-amortizing CIAC balance is neither reasonable nor  
14 supportable.

15 **Q. WHY DO YOU BELIEVE THAT STAFF'S INTERPRETATION OF**  
16 **DECISION NO. 54526 IS FLAWED?**

17 A. Staff relies on language at page 3 lines 10-17 of Decision 54526. That language  
18 states:

19 "An *additional* matter was brought forth *at hearing*. CLWC  
20 indicated that it was presently 'amortizing' certain  
21 unrefunded *advances* which it had subsequently determined  
22 would never be repaid. Any advances which are no longer  
23 subject to refund should be *reclassified* as CIAC. The  
24 Commission has consistently rejected amortization of CIAC,  
25 and any such amortization without express approval is  
26 improper. CLWC should immediately *reclassify* these  
balances as CIAC and should cease further amortization.  
Previous amortization should also be reversed." (Emphasis  
added.)

1           A CIAC balance for Cordes Lakes of \$76,247 is included in the Staff Report  
2           for the 1984 rate case application.<sup>8</sup> The order states clearly that the unrefunded  
3           advances were an "additional" issue brought up "at hearing." Therefore, the order  
4           could not have been referring to the \$76,247 in CIAC included in the Staff's *pre-*  
5           *hearing* Staff Report. Additionally, the order also states clearly that the advances  
6           should be "reclassified" as CIAC. But Cordes Lakes' \$76,247 CIAC balance was  
7           already classified as CIAC prior to the hearing, so there would have been no need  
8           for a reclassification. For these reasons, it is apparent that the advances discussed  
9           in Decision 54526 were not the \$76,247 CIAC balance presented in the Company's  
10          1984 rate case application. Staff's assumption that Decision 54526 was referring  
11          to the \$76,247 CIAC balance is simply incorrect.

12   **Q.    SO WHAT WERE THE ADVANCES THAT DECISION 54526 REFERRED**  
13   **TO?**

14   A.    These advances were associated with the Company's Verde Village System, which  
15          was part of the 1984 rate case. The Verde Village System was subsequently  
16          condemned by the City of Cottonwood some years ago. Consistent with normal  
17          ratemaking practices, the AIAC and CIAC associated with the Verde Village  
18          System would have conveyed with the condemnation.

19   **Q.    HOW HAS THE COMMISSION'S VIEW OF CIAC CHANGED SINCE**  
20   **DECISION 54526?**

21   A.    Decision 54526 indicates that CIAC should not be amortized. Since that time, the  
22          Commission has completely reversed its position regarding CIAC amortization. In  
23          fact, every rate case I am aware of includes CIAC amortization. The NARUC  
24          unified Systems of Accounts (published in 1996) also provide for CIAC

25  
26   <sup>8</sup> See page 15 of the Staff Report filed on December 4, 1984 in Docket U-2060-84-036.

1 amortization. Based on current practice, I can think of no reasonable explanation  
2 as to why a 30 year old un-amortized CIAC balance should be kept on a company's  
3 books.<sup>9</sup>

4 **Q. WHAT ARE YOU RECOMMENDING FOR THE COMPANY'S CIAC**  
5 **BALANCE?**

6 A. The Company's internal accounting records indicate that it has a CIAC balance of  
7 \$92,754. This is offset by accumulated CIAC amortization of \$53,720 providing a  
8 net CIAC amount of \$39,034. Schedule 1 shows the derivation of these CIAC  
9 amounts.

10 **IV. BAD DEBT**

11 **Q. PLEASE DISCUSS THE ISSUE INVOLVING BAD DEBT.**

12 A. I noticed that the Company's original application contained no provision for bad  
13 debt. This struck me as odd since all companies experience at least some level of  
14 non-payment (especially in a state like Arizona, where transient residents are  
15 common). The Company was unaware that bad debt expense could or should be  
16 included in a rate case application.

17 The Company provided me with its test year bad debt expense (tracked by  
18 their billing system), which is included in the schedules I prepared. The test year  
19 level of Bad Debt expense is \$4,049. This is just less than 1% of the Company's  
20 operating revenue. The detail of the \$4,049 bad debt expense is included as  
21 Exhibit 2. The \$4,049 is a reasonable amount and reflects the Company's actual  
22 test year bad debt expense. This bad debt expense should be included as a  
23 component of the revenue requirement in this case.

24 

---

  
25 <sup>9</sup> Conceivable, if the CIAC may have been associated with non depreciating plant (i.e., land) it  
26 should not be amortized. But if that were the case there should have been a \$76,247 land balance  
for Cordes Lakes in the 1984 case. The 1984 case did not include a \$76,247 land balance for  
Cordes Lakes.

1 **V. REAL PROPERTY**

2 **Q. PLEASE DISCUSS THE ISSUES INVOLVING LAND IN THIS CASE.**

3 A. Staff's Rate base Adjustment No 1 removes \$35,665 from plant based on it being  
4 for a lot that is not used or useful. I do not have an issue with this adjustment; the  
5 lot in question is not currently being used by the Company. However, the \$35,665  
6 was the entire amount the Company was claiming for land in its application. The  
7 Company owns other parcels of land used in the provision of water utility service  
8 to its customers. Staff's engineering report indicates that the Company operates  
9 five wells and two booster stations. Each of these facilities has to be located on a  
10 piece of land. Therefore a zero balance for land is unreasonable and not reflective  
11 of reality.

12 After some inquiry, I was informed that the Company's internal accounting  
13 records indicate a land balance of \$85,599. The Company did not include the full  
14 amount of land balances in its rate case application. Exhibit 3 shows the detail of  
15 the Company's land balance since 1999.

16 Removing the \$35,665 for the unused lot from the Company's total land  
17 balance leaves a land balance of \$49,934. This is a reasonable amount considering  
18 that the facilities owned and operated by the Company (five wells and two booster  
19 stations) are located on the land. Inclusion of the \$49,934 land balance in rate base  
20 is appropriate and consistent with standard ratemaking practices.

21 **VI. INVOICES**

22 **Q. PLEASE DISCUSS THE ISSUES INVOLVING STAFF'S ADJUSTMENT**  
23 **NO 3.**

24 A. Staff's adjustment No 3 removes \$11,818 of used and useful plant from rate base.  
25 This disallowance is based on: (i) Staff's decision to classify certain plant additions  
26 as expenses, and (ii) on one invoice inadvertently not being provided by the

1 Company. The missing invoice is attached to this testimony as Exhibit 4. Staff's  
2 allocation of the invoiced amounts to expenses is excessive and is not consistent  
3 with normal capitalization procedures. Schedule 2 compares Staff's proposed  
4 allocations to those proposed by the Company. Schedule 2 also shows that the  
5 Company's proposed allocation between plant and expenses - along with the  
6 missing invoice - make Staff's proposed \$11,818 disallowance unnecessary.

7 **Q. DOES STAFF JUSTIFY THEIR DECISION TO CLASSIFY CERTAIN**  
8 **PLANT ADDITIONS AS EXPENSES?**

9 A. No. Staff simply states that some invoices "included non-capitalized items."<sup>10</sup>  
10 Staff does not explain why it considers certain items to be "non-capitalized."

11 For an example of why Staff's classification of the provided invoices is  
12 unreasonable, let's consider Invoice No. 108115 for \$1,229. This invoice is  
13 attached as Exhibit 5. This invoice includes long lasting plant items such as gate  
14 valves (part # BGV.007) and Meter Valves (part # KV43.342W), and yet Staff  
15 classifies all \$1,229 as a repair expense. Capitalization policies vary across  
16 companies. Some companies will capitalize any expenditure above a certain  
17 amount (e.g., \$100.) Others employ a policy of capitalizing any expenditure that  
18 increases the life of the plant. Under either of these policies the expenditures in  
19 Invoice No. 108115 would qualify as capital improvements.

20 **VII. RATE CASE EXPENSE**

21 **Q. PLEASE DISCUSS YOUR RECOMMENDATION REGARDING RATE**  
22 **CASE EXPENSE.**

23 A. The Company's owners initially attempted to compile and process this rate case  
24 application without outside assistance. However, compounding the problem was  
25

26 <sup>10</sup> Direct Testimony of Mary J Rimback at 9 line 15.

1 that the Company was allowed to use a short-form application intended for Class D  
2 and E utilities. While Staff's intentions may have been to allow Cordes Lakes'  
3 owners to avoid the complexities inherent in a full rate case proceeding, it then  
4 proceeded to file nearly 40 pages of complex cost of capital testimony. Moreover,  
5 Staff then recommended a median increase of \$.02 for a typical 3/4-inch meter  
6 customer, which is less than one-tenth of one percent, based on a flawed three-  
7 tiered rate structure. Faced with such an unreasonable recommendation that does  
8 nothing to ensure the financial viability of the Company, Cordes Lakes' owners  
9 determined that outside assistance was indeed necessary. This testimony and the  
10 attached schedules only correct the deficiencies in the case DMAS has identified.  
11 This amount of effort, including the legal expenses necessary to properly process  
12 this case, is estimated to result in a very reasonable rate case expense of \$18,000.  
13 The Company proposes to amortize that expense over three years.

14 **VIII. POST TEST YEAR PLANT**

15 **Q. PLEASE DISCUSS THE COMPANY'S PROPOSED POST TEST YEAR**  
16 **PLANT**

17 A. Since the end of the test year the Company has had to replace multiple pump  
18 motors and install various other electrical equipment. These plant expenditures  
19 total \$7,680 to date in 2013 and \$8,643 for 2012. The Company proposes adding  
20 the total amount of \$16,324 to rate base. This adjustment includes an increase to  
21 accumulated depreciation of \$2,641 and to depreciation expense of \$1,560. Given  
22 that nearly a year and a half has passed since the end of the test year a post test year  
23 plant adjustment is appropriate. This amount does not represent the total amount of  
24 plant added since the end of the test year, rather it is the amount DMAS was able to  
25 identify and verify within the limited time available to develop this Rebuttal  
26 Testimony.

1 **IX. EXPENSE ADJUSTMENTS**

2 **Q. PLEASE DISCUSS THE COMPANIES PROPOSED ADJUSTMENT TO**  
3 **ACCOUNTING CONTRACTUAL SERVICES.**

4 A. Most of the Company's accounting is now done in house by Mr. Neil Folk.  
5 However, because of Mr. Folk's advanced age the Company is actively seeking a  
6 vendor to supply comprehensive outside accounting services. In DMAS'  
7 experience a typical Class C water utility incurs outside accounting expenses of  
8 \$10,000 per year. An adjustment of \$6,340 to bring the Company's current outside  
9 accounting expense, \$3,660, up to \$10,000 is appropriate in light of this situation.

10 **Q. PLEASE DISCUSS THE COMPANY'S PROPOSED ADJUSTMENT TO**  
11 **PURCHASED POWER EXPENSE.**

12 A. The Company is a customer of Arizona Public Service (APS) which had a rate case  
13 conclude on March 24, 2012 (Decision No. 73183.) This decision makes several  
14 changes to APS' myriad charges and surcharges. On net these changes result in an  
15 increase of \$917 per year for Cordes Lakes and the Company is proposing an  
16 adjustment to account for these known and measurable changes.

17 **X. REVENUE REQUIREMENT AND RATE DESIGN**

18 **Q. PLEASE DISCUSS THE COMPANY'S PROPOSED REVENUE**  
19 **REQUIREMENT.**

20 A. The Company proposes an increase in revenue of \$50,271. This is an increase of  
21 12% over adjusted test year revenue of \$420,536.

22 **Q. WHAT RATES ARE THE COMPANY PROPOSING?**

23 A. Table 1 shows the Company's proposed rates along with the present rates, as well  
24 as Staff's proposed rates:  
25  
26

Table 1

| Monthly Minimum Charges |               |                |                  |
|-------------------------|---------------|----------------|------------------|
|                         | Present Rates | Staff Proposed | Company Proposed |
| ¾" Meter                | 11.00         | 11.00          | 13.52            |
| 1" Meter                | 19.50         | 19.50          | 23.35            |
| 2" Meter                | 62.50         | 62.50          | 76.82            |

Commodity Rates ¾" Meters

| Tiers by gallons | Present Rates | Staff Proposed | Company Proposed |
|------------------|---------------|----------------|------------------|
| Tier 1 < 3K      | 2.80          | 2.80           | 2.81             |
| 3K < Tier 2 < 8K | 4.30          | 4.50           | 4.50             |
| Tier 3 > 8K      | 5.00          | 5.40           | 5.40             |

Commodity Rates 1" Meters

| Tiers by gallons | Present Rates | Staff Proposed | Company Proposed |
|------------------|---------------|----------------|------------------|
| Tier 1 < 18K     | 4.30          | 4.50           | 4.50             |
| Tier 3 > 8K      | 5.00          | 5.40           | 5.40             |

Commodity Rates 2" Meters

| Tiers by gallons | Present Rates | Staff Proposed | Company Proposed |
|------------------|---------------|----------------|------------------|
| Tier 1 < 75K     | 4.30          | 4.50           | 4.50             |
| Tier 3 > 75K     | 5.00          | 5.40           | 5.40             |

Q. WHAT IS THE IMPACT OF YOUR PROPOSED RATES ON THE MEDIAN RESIDENTIAL CUSTOMER?

A. Table 2 below shows the monthly impact on a residential customer with median usage of Staff's and the Company's proposed rates.

Table 2

| Median Customer Usage 3088 Gallons |         |             |
|------------------------------------|---------|-------------|
|                                    | Bill    | \$ Increase |
| Bill at Present Rates              | \$19.78 |             |
| Bill at Staff Proposed Rates       | 19.80   | \$0.02      |
| Bill at Company Proposed Rates     | 22.35   | \$2.70      |



1 Q. PLEASE DISCUSS STAFF'S AND THE COMPANY'S PROPOSED RATE  
2 DESIGN.

3 A. Staff's proposed rates result in a \$.02 monthly increase for the median residential  
4 customer, and allocates the entirety of the proposed increase to the top two  
5 commodity tiers. This is an unreasonable allocation because it is actually more  
6 likely to result in a revenue *decrease* rather than a revenue increase. High use  
7 customers are more likely to conserve than other customers. The bulk of Cordes  
8 Lakes customers already use a low amount of water and thus have little room for  
9 conservation. In contrast, the few high use customers can certainly look for ways  
10 to reduce their usage. All it will take is for a few high use customers to cut back on  
11 their usage to completely eliminate the increase recommended by Staff or to  
12 actually result in a decrease. Staff's unreasonable and highly risky rate design  
13 should not be adopted.

14 The Company's proposed rates result in only a \$2.70 monthly increase for  
15 the median residential customer. The Company's proposed rates allocate most (but  
16 not all) of the proposed increase to the monthly minimum charge which leads to  
17 revenue stability. Given the substantial infrastructure investments Cordes Lakes is  
18 faced with, revenue stability is imperative.

19 Under Staff's proposed rates, 41% of revenue will come from monthly  
20 minimum charges and 59% from Commodity rates. Under the Company's  
21 proposed rates 46% of revenue will come from monthly minimum charges and  
22 54% from Commodity rates. Although the Company is not proposing a radically  
23 different rate design, Staff's allocation of 100% of their proposed increase to the  
24 top two commodity rate tiers substantially enhances the risk to the Company that it  
25 will not earn the authorized revenue requirement, and it should be rejected.

26

1 **XI. OTHER ISSUES (SURCHARGES, BMPS, AND CC&N APPLICATION)**

2 **Q. PLEASE DISCUSS THE SURCHARGES RECOMMENDED IN THE**  
3 **COMPANY'S APPLICATION.**

4 **A.** Due to high levels of water loss Cordes Lakes is in great need of plant investment.  
5 This is not the result of mismanagement, it is simply the result of age. The plant in  
6 the ground is getting old and needs to be replaced. Staff's Engineering Report  
7 demonstrates that plant additions are necessary to address the water loss issue.<sup>11</sup> It  
8 also finds that the Company's proposed expenditures to deal with these issues to  
9 "be a good starting point."<sup>12</sup> As a result, the Company is proposing that surcharges  
10 be put in place to fund the necessary plant investments.

11 In its amended application, the Company explains that (1) it was ordered in  
12 its last rate case to investigate mitigating water loss from leaks and old meters, (2)  
13 the Company does not have the finances to fund a major leak reduction effort, and  
14 (3) the plant responsible for most of the leaks was installed prior to 1974. In spite  
15 of these averments, Staff's accounting witness indicates that the Company "did not  
16 provide any explanation to support" the surcharges.<sup>13</sup> Staff's accounting witness  
17 also characterizes the necessary work on water loss as "repairs" and as "normal on-  
18 going costs."<sup>14</sup> This is a mischaracterization at best. Dealing with plant that is  
19 more than forty years old and that is causing substantial leaks does not require  
20 "repairs" – it requires investments in new plant. Staff's engineering witness  
21 agrees that the Company's proposal to spend \$30,000 per year over the next two  
22

23 <sup>11</sup> See Exhibit DS to the Direct Testimony of Del Smith at page 8.

24 <sup>12</sup> See point 2 under CONCLUSIONS in the Executive Summary of the Direct Testimony  
of Del Smith in this Docket.

25 <sup>13</sup> See Exhibit DS to the Direct Testimony of Del Smith at page 8.

26 <sup>14</sup> Direct Testimony of Mary J Rimback at 22.

1 years addressing this issue is "a good starting point."<sup>15</sup> Yet Staff's accounting  
2 witness allows only \$13,662 for repairs and maintenance expense – for the entire  
3 system – and states that it is sufficient to cover on-going costs.

4 While the Company believes that a surcharge is appropriate in this case, it is  
5 also aware and understands that the Staff and Commission have not typically  
6 allowed for such surcharges. In order to limit the issues in dispute, and  
7 notwithstanding the contradictions in Staff's testimony discussed above, the  
8 Company is withdrawing its request for surcharges. However, this discussion  
9 highlights the Company's need for rate relief in this docket, and clears the record  
10 that the Company did in fact explain its need for the surcharges. Cordes Lakes is  
11 in need of substantial plant investment, which will be untenable if the rates  
12 recommended by Staff are adopted.

13 **Q. PLEASE DISCUSS THE ISSUE CONCERNING BEST MANAGEMENT**  
14 **PRACTICES (BMPS.)**

15 A. Staff is recommending that the Company file tariffs for five different BMPs.  
16 However, Staff includes no cost recovery for the expenses associated with these  
17 BMPs. The Company's focus is on addressing the state of its aging distribution  
18 system, and requiring the Company to file these BMP tariffs – especially without  
19 any promise of cost recovery – is an unnecessary burden, and the Company  
20 respectfully requests that the Commission reject Staff's recommendation.

21 **Q. PLEASE DISCUSS STAFF'S RECOMMENDATION REGARDING A**  
22 **FUTURE CC&N APPLICATION.**

23 A. Staff is recommending that the Company file a CC&N extension application to  
24 deal with customers it is serving outside of its service territory. As a result of

25 <sup>15</sup> See point 2 under CONCLUSIONS in the Executive Summary of the Direct Testimony of Del  
26 Smith in this Docket.

1 recent changes to the Commission's rules and regulations, CC&N applications are  
2 now more time consuming and expensive. Given the water loss issues the  
3 Company is grappling with, the additional expense and effort required to file a  
4 CC&N extension application should be avoided. Neither the Company nor its  
5 ratepayers will be harmed. As a compromise, Cordes Lakes may be willing to file  
6 a Notice of Extension so that the CC&N boundaries can be properly established  
7 and recorded by Staff, but only if the process is streamlined and will not require a  
8 costly expenditure. In the absence of Staff's willingness to compromise, then the  
9 Company would respectfully requests that Staff's recommendation not be adopted.  
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# **SCHEDULES**

CORDES LAKES WATER COMPANY

Docket No. W-02060A-12-0356

Test Year Ended December 31, 2011

**Schedule 1 CIAC and CIAC Amortization**

| Date       | Amount   | Balance  |
|------------|----------|----------|
| 12/31/1999 | 79638.88 | 79638.88 |
| 11/30/2000 | -4685    | 74953.88 |
| 12/31/2001 | -4685    | 70268.88 |
| 12/31/2002 | -4685    | 65583.88 |
| 12/31/2003 | -4685    | 60898.88 |
| 12/31/2004 | 13115    | 74013.88 |
| 11/30/2005 | -4685    | 69328.88 |
| 12/31/2006 | -4685    | 64643.88 |
| 12/31/2007 | -4685    | 59958.88 |
| 12/31/2008 | -4185    | 55773.88 |
| 12/31/2009 | -4185    | 51588.88 |
| 12/31/2010 | -4185    | 47403.88 |
| 12/31/2011 | -4185    | 43218.88 |
| 12/31/2012 | -4185    | 39033.88 |

Total CIAC  
92753.88

Total CIAC Amortization  
-53720

Current CIAC Balance  
39034

CORDES LAKES WATER COMPANY

Docket No. W-02060A-12-0356

Test Year Ended December 31, 2011

**Schedule 2 Analysis of Invoices**

| 2007 | Invoice #            | Date      | Invoices      | Plant Per<br>Staff | Expenses<br>Per Staff | Plant Per<br>per company | Expenses<br>per company |
|------|----------------------|-----------|---------------|--------------------|-----------------------|--------------------------|-------------------------|
|      |                      |           | Amount        |                    |                       |                          |                         |
|      | 104306               | 26-Dec-06 | 2,076         | -                  | -                     | 1265                     | 810                     |
|      | 104409               | 4-Jan-07  | 909           | 1,008              | 1,068                 | 909                      |                         |
|      | 105059               | 8-Feb-07  | 192           | 909                | -                     | 192                      |                         |
|      | 105057               | 8-Feb-07  | 953           | 192                | -                     | 858                      | 95                      |
|      | 105058               | 2/8/07    | 3,304         | 746                | 206                   | 2971                     | 333                     |
|      | 106690               | 5/1/07    | 3,305         | 2,352              | 952                   | 3104                     | 200                     |
|      | 107178               | 5/24/07   | 909           | 2,514              | 791                   | 909                      |                         |
|      | 17638                | 6/14/07   | 1,148         | 909                | -                     | 1066                     | 82                      |
|      | 108116               | 7/10/07   | 432           | -                  | 1,148                 | 431.83                   |                         |
|      | 108115               | 7/10/07   | 1,229         | 432                | -                     | 865                      | 364                     |
|      | 108268               | 7/18/07   | 1,966         | -                  | 1,229                 | 1229.21                  |                         |
|      | 108966               | 8/2/07    | 1,436         | 1,966              | -                     | 1436                     | 0                       |
|      | 10821                | 8/14/07   | 2,481         | -                  | 1,436                 | 1858                     | 622                     |
|      | 1359A                | 10/26/07  | 291           | 1,825              | 655                   | 291                      |                         |
|      | 1100                 | 11/8/07   | 65            | 291                | -                     | 65                       |                         |
|      | 1359                 | 10/18/07  | 3,618         | 65                 | -                     | 3583                     | 35                      |
|      | <b>2007 Subtotal</b> |           | <b>24,312</b> | <b>13,209</b>      | <b>7,485</b>          | <b>21,033.04</b>         | <b>2,541.23</b>         |
| 2008 | 2944A                | 2/12/08   | 1,938         | -                  | -                     | 1937                     | 5                       |
|      | 3861                 | 3/13/08   | 3,116         | 1,938              | -                     | 3024                     | 95                      |
|      | 4182                 | 3/27/08   | 538           | 2,945              | 171                   | 469                      | 65                      |
|      | 4532                 | 4/17/08   | 1,748         | 510                | 28                    | 1748                     |                         |
|      | 261                  | 4/30/08   | 8,688         | 1,748              | -                     | 8687.5                   |                         |
|      | 4646                 | 5/1/08    | 15,246        | 8,688              | -                     | 15245.83                 |                         |
|      | 4033                 | 5/7/08    | 3,541         | 15,246             | -                     | 3541.14                  |                         |
|      | 0                    | 5/23/08   | 3,416         | 3,541              | -                     | 3415.87                  |                         |
|      | 5162                 | 5/23/08   | 1,750         | 3,416              | -                     | 1749.68                  |                         |
|      | 4077                 | 7/7/08    | 4,370         | 1,750              | -                     | 4369.61                  |                         |
|      | 6610                 | 9/2/08    | 5,259         | 4,370              | -                     | 5259.32                  |                         |
|      | 4108                 | 9/4/08    | 8,119         | 5,259              | -                     | 8119.08                  |                         |
|      | 6250                 | 10/22/08  | 4,389         | 8,119              | -                     | 4388.88                  |                         |
|      | 7478                 | 11/19/08  | 1,236         | 4,389              | -                     | 1235.78                  |                         |
|      | <b>2008 Subtotal</b> |           | <b>63,352</b> | <b>61,918</b>      | <b>198</b>            | <b>63,191</b>            | <b>165</b>              |
| 2009 | 8115                 | 1/8/09    | 822           | -                  | -                     | 549                      | 239                     |
|      | 9517                 | 5/14/09   | 591           | 822                | -                     | 549                      | 8                       |
|      | 10407                | 8/12/09   | 1,207         | 591                | -                     | 1165                     | 17                      |
|      | 10975                | 10/8/09   | 701           | 1,168              | 38                    | 572                      | 130                     |
|      | 11486                | 12/11/09  | 485           | 582                | 119                   | 485                      |                         |
|      | <b>2009 Subtotal</b> |           | <b>3,805</b>  | <b>3,163</b>       | <b>157</b>            | <b>3,320</b>             | <b>394</b>              |
| 2010 | 12301                | 3/4/10    | 1,165         | -                  | -                     | 1165.32                  | -                       |
|      | 1919                 | 12/28/10  | 942           | 1,165              | -                     | 0                        | 942                     |
|      | <b>2010 Subtotal</b> |           | <b>2,108</b>  | <b>1,165</b>       | <b>-</b>              | <b>1,165</b>             | <b>942</b>              |



|   |          |         |                |               |              |                |              |
|---|----------|---------|----------------|---------------|--------------|----------------|--------------|
| 2011  | 2223     | 6/28/11 | 1,611          | -             | -            | 1610.87        | 0            |
|   | Contract |         | 2,412          | 1,611         | -            | 2411.5         | 0            |
| <b>2011 Subtotal</b>                              |          |         | <b>4,023</b>   | <b>1,611</b>  | <b>-</b>     | <b>4,022</b>   | <b>-</b>     |
| <b>Total of Provided Invoices</b>                 |          |         | <b>97,600</b>  | <b>81,066</b> | <b>7,841</b> | <b>92,731</b>  | <b>4,043</b> |
| <b>Total Plant Additions per application</b>      |          |         | <b>100,635</b> |               |              | <b>100,635</b> |              |
| <b>Difference</b>                                 |          |         | <b>3,035</b>   |               |              | <b>7,904</b>   |              |
| <b>Difference Plus Expenses</b>                   |          |         | <b>10,876</b>  |               |              | <b>11,946</b>  |              |
| <b>Missing Invoice (Invoice No. S1016897) Exh</b> |          |         | <b>13,533</b>  |               |              | <b>13,533</b>  |              |
| <b>Surplus/(Deficit)</b>                          |          |         | <b>2,658</b>   |               |              | <b>1,587</b>   |              |

CORDES LAKES WATER COMPANY  
Docket No. W-02060A-12-0356  
Test Year Ended December 31, 2011

**Schedule A**  
**Computation of Increase in**  
**Revenue Requirement**

| <u>Line</u> |  | <u>Original Cost</u> | <u>RCND</u>      |
|-------------|--|----------------------|------------------|
| 1           | Adjusted Rate Base                             | \$ 222,825           | \$ 222,825       |
| 2           | Adjusted Operating Income                      | \$ (15,122)          | \$ (15,122)      |
| 3           | Current Rate of Return                         | -6.79%               | -6.79%           |
| 4           | Required Operating Income                      | \$ 23,508            | \$ 23,508        |
| 5           | Required Rate of Return                        | 10.55%               | 10.55%           |
| 6           | Operating Income Deficiency (4 - 2)            | \$ 38,630            | \$ 38,630        |
| 7           | Gross Revenue Conversion Factor                | 1.301                | 1.301            |
| 8           | Increase in Gross Revenue Requirements (6 x 7) | <u>\$ 50,271</u>     | <u>\$ 50,271</u> |

|    | <u>Customer</u><br><u>Classification</u> | <u>Adjusted</u><br><u>Revenue at</u><br><u>Present Rates</u> | <u>Revenue at</u><br><u>Proposed</u><br><u>Rates</u> | <u>Projected</u><br><u>Revenue</u><br><u>Increase Due</u><br><u>to Rates</u> | <u>% Dollar</u><br><u>Increase</u> |
|----|--|--|--|--|------------------------------------|
| 9  | 3/4" Meter Residential                   | \$ 405,243   | \$ 454,163   | \$ 48,920  | 12.07%                             |
| 10 | 1" Meter Commercial                      | 2,400  | 2,737  | 337  | 14.06%                             |
| 11 | 2" Meter Commercial                      | 5,463  | 5,881  | 418  | 7.65%                              |
| 12 | Unmetered Revenue                        | 8,090  | 8,090  | -  | 0.00%                              |
| 13 | <b>Total</b>                             | <u>\$ 420,536</u>  | <u>\$ 470,871</u>                                    | <u>\$ 50,335</u>   | <u>11.97%</u>                      |

CORDES LAKES WATER COMPANY  
Docket No. W-02060A-12-0356  
Test Year Ended December 31, 2011

**Schedule B**  
**Rate base**

| <b>Line</b> | <b>Description</b>                   | <b>Company as<br/>Filed</b> | <b>Staff as<br/>Adjusted</b> | <b>Company as<br/>Revised</b> |
|-------------|--------------------------------------|-----------------------------|------------------------------|-------------------------------|
| 1           | Gross Utility Plant in Service       | \$ 601,634                  | \$ 1,137,023                 | \$ 1,198,775                  |
| 2           | Less: Accumulated Depreciation       | (139,712)                   | (894,996)                    | (897,637)                     |
| 3           | Net Utility Plant in Service         | \$ 461,922                  | \$ 242,027                   | \$ 301,139                    |
| 4           | <b>Less:</b>                         |                             |                              |                               |
| 5           | Meter Advances                       | \$ 21,110                   | \$ 21,110                    | \$ 21,110                     |
| 6           | Contributions in Aid of Construction | -                           | \$ 76,247                    | \$ 92,754                     |
| 7           | Customer Deposits                    | 18,170                      | 18,170                       | 18,170                        |
| 8           | <b>Add:</b>                          |                             |                              |                               |
| 9           | Amortization of Contributions        | \$ -                        | \$ -                         | \$ 53,720                     |
| 10          | Deferred Tax Assets                  | \$ -                        | \$ -                         | \$ -                          |
| 11          | Allowance for Working Capital        | 74,147                      | -                            | -                             |
| 12          | <b>Total Rate Base</b>               | <b>\$ 496,789</b>           | <b>\$ 126,500</b>            | <b>\$ 222,825</b>             |

CORDES LAKES WATER COMPANY  
Docket No. W-02060A-12-0356  
Test Year Ended December 31, 2011

SUMMARY OF ORIGINAL COST RATE BASE ADJUSTMENTS

Schedule B-2

| LINE NO.          | ACCT. NO. | DESCRIPTION                                 | (A)<br>COMPANY<br>AS REVISED | (B) (C) Staff Adjustments* |                  |                         |                      |                  |                           |                   |                          |                  |            | (H)<br>COMPANY<br>ADJUSTED |
|-------------------|-----------|---|------------------------------|----------------------------|------------------|-------------------------|----------------------|------------------|---------------------------|-------------------|--------------------------|------------------|------------|----------------------------|
|                   |           |   |                              | (B)                        |                  | (C)                     |                      | (E)              |                           | (G)               |                          | (F)              |            |                            |
|                   |           |   |                              | Re & Ret. Land<br>ADJ #1   | Ref. Sch. M.R. 5 | Used & Useful<br>ADJ #2 | Acc. Depr.<br>ADJ #4 | Ref. Sch. M.R. 3 | Working Capital<br>ADJ #6 | Ref. Sch. M.R. 10 | Post-Test Year<br>ADJ #7 | Ref. Sch. B-2, F |            |                            |
| PLANT IN SERVICE. |           |   |                              |                            |                  |                         |                      |                  |                           |                   |                          |                  |            |                            |
| 1                 |           |   | \$                           | -                          | \$               | -                       | \$                   | -                | \$                        | -                 | \$                       | -                | \$         | -                          |
| 2                 | 301       | Organization                                |                              |                            |                  |                         |                      |                  |                           |                   |                          |                  |            |                            |
| 3                 | 302       | Franchises                                  |                              |                            |                  |                         |                      |                  |                           |                   |                          |                  |            |                            |
| 4                 | 303       | Land and Land Rights                        | 85,599                       |                            | (35,665)         |                         |                      |                  |                           |                   |                          |                  |            | 49,934                     |
| 5                 | 304       | Structures & Improvements                   | 6,657                        |                            |                  |                         |                      |                  |                           |                   |                          |                  |            | 6,657                      |
| 6                 | 305       | Collecting & Impounding Reservoirs          | -                            |                            | -                |                         |                      |                  |                           |                   |                          |                  |            | -                          |
| 7                 | 306       | Lakes, Rivers, Other Intakes                | -                            |                            | -                |                         |                      |                  |                           |                   |                          |                  |            | -                          |
| 8                 | 307       | Wells and Springs                           | 167,348                      |                            |                  |                         |                      |                  |                           |                   |                          |                  |            | 167,348                    |
| 9                 | 308       | Infiltration Galleries and Tunnels          | -                            |                            | -                |                         |                      |                  |                           |                   |                          |                  |            | -                          |
| 10                | 309       | Supply Mains                                | -                            |                            | -                |                         |                      |                  |                           |                   |                          |                  |            | -                          |
| 11                | 310       | Power Generation Equipment                  | -                            |                            | -                |                         |                      |                  |                           |                   |                          |                  |            | -                          |
| 12                | 311       | Pumping Equipment                           | 26,588                       |                            |                  |                         |                      |                  |                           |                   |                          |                  | 16,324     | 42,912                     |
| 13                | 320       | Water Treatment Plant                       | -                            |                            | -                |                         |                      |                  |                           |                   |                          |                  |            | -                          |
| 14                | 330       | Distribution Reservoirs & Standpipes        | 141,632                      |                            |                  |                         |                      |                  |                           |                   |                          |                  |            | 141,632                    |
| 15                | 331       | Transmission & Distribution Mains           | 15,099                       |                            | 562,940          |                         |                      |                  |                           |                   |                          |                  |            | 578,039                    |
| 16                | 333       | Services                                    | -                            |                            | 19,350           |                         |                      |                  |                           |                   |                          |                  |            | 19,350                     |
| 17                | 334       | Meters & Meter Installation                 | 70,842                       |                            |                  |                         |                      |                  |                           |                   |                          |                  |            | 70,842                     |
| 18                | 335       | Hydants                                     | -                            |                            | -                |                         |                      |                  |                           |                   |                          |                  |            | -                          |
| 19                | 336       | Backflow Prevention Devices                 | -                            |                            | -                |                         |                      |                  |                           |                   |                          |                  |            | -                          |
| 20                | 339       | Other Plant & Misc. Equipment               | 59,315                       |                            |                  |                         |                      |                  |                           |                   |                          |                  |            | 59,315                     |
| 21                | 340       | Office Furniture & Equipment                | 7,027                        |                            |                  |                         |                      |                  |                           |                   |                          |                  |            | 7,027                      |
| 22                | 341       | Transportation Equipment                    | 71,461                       |                            |                  |                         |                      |                  |                           |                   |                          |                  |            | 71,461                     |
| 23                | 342       | Stores Equipment                            | -                            |                            | -                |                         |                      |                  |                           |                   |                          |                  |            | -                          |
| 24                | 343       | Tools, Ship & Garage Equipment              | -                            |                            | -                |                         |                      |                  |                           |                   |                          |                  |            | -                          |
| 25                | 344       | Laboratory Equipment                        | -                            |                            | -                |                         |                      |                  |                           |                   |                          |                  |            | -                          |
| 26                | 345       | Power Operated Equipment                    | -                            |                            | -                |                         |                      |                  |                           |                   |                          |                  |            | -                          |
| 27                | 346       | Communication Equipment                     | -                            |                            | -                |                         |                      |                  |                           |                   |                          |                  |            | -                          |
| 28                | 347       | Miscellaneous Equipment                     | -                            |                            | -                |                         |                      |                  |                           |                   |                          |                  |            | -                          |
| 29                | 348       | Other Tangible Plant                        | -                            |                            | -                |                         |                      |                  |                           |                   |                          |                  |            | -                          |
| 30                |           | Total Plant in Service                      | 651,568                      | (35,665)                   | 582,872          |                         |                      |                  |                           |                   |                          |                  | 16,324     | 1,198,775                  |
| 31                |           |   |                              |                            |                  |                         |                      |                  |                           |                   |                          |                  |            |                            |
| 32                |           | Less: Accumulated Depreciation              | 139,712                      | -                          | -                | -                       | 755,284              |                  |                           |                   |                          |                  | 2,641      | 897,637                    |
| 33                |           |   |                              |                            |                  |                         |                      |                  |                           |                   |                          |                  |            |                            |
| 34                |           | Net Plant in Service (L30 - L32)            | \$ 511,856                   | \$ (35,665)                | \$ 582,872       | \$ (755,284)            | \$ -                 | \$ -             | \$ -                      | \$ 13,683         | \$ -                     | \$ -             | \$ 301,139 |                            |
| 35                |           |   |                              |                            |                  |                         |                      |                  |                           |                   |                          |                  |            |                            |
| 36                |           | LESS:                                       |                              |                            |                  |                         |                      |                  |                           |                   |                          |                  |            |                            |
| 37                |           | Contributions in Aid of Construction (CIAC) |                              |                            |                  |                         |                      |                  |                           |                   |                          |                  |            |                            |
| 38                |           | Less: Accumulated Amortization              | \$ 92,754                    | \$ -                       | \$ -             | \$ -                    | \$ -                 |                  |                           |                   |                          |                  | \$         | 92,754                     |
| 39                |           | Net CIAC (L25 - L28)                        | 53,720                       |                            |                  |                         |                      |                  |                           |                   |                          |                  |            | 53,720                     |
| 40                |           | Meier Advances                              | 39,034                       |                            |                  |                         |                      |                  |                           |                   |                          |                  |            | 39,034                     |
| 41                |           | Customer Deposits                           | 21,110                       |                            |                  |                         |                      |                  |                           |                   |                          |                  |            | 21,110                     |
| 42                |           | Deferred Tax Liabilities                    | 18,170                       |                            |                  |                         |                      |                  |                           |                   |                          |                  |            | 18,170                     |
| 43                |           |   | -                            |                            |                  |                         |                      |                  |                           |                   |                          |                  |            | -                          |
| 44                |           | ADD:  |                              |                            |                  |                         |                      |                  |                           |                   |                          |                  |            |                            |
| 45                |           | Unamortized Finance Charges                 | -                            |                            |                  |                         |                      |                  |                           |                   |                          |                  |            | -                          |
| 46                |           | Deferred Tax Assets                         | -                            |                            |                  |                         |                      |                  |                           |                   |                          |                  |            | -                          |
| 47                |           | Working Capital                             | 74,147                       |                            |                  |                         |                      |                  |                           |                   |                          | (74,147)         |            | -                          |
| 48                |           |   |                              |                            |                  |                         |                      |                  |                           |                   |                          |                  |            |                            |
| 49                |           | Original Cost Rate Base                     | \$ 507,690                   | \$ (35,665)                | \$ 582,872       | \$ (755,284)            | \$ -                 | \$ -             | \$ -                      | \$ 13,683         | \$ -                     | \$ -             | \$         | 222,825                    |

\*Staff Adjustments # 3 and 5 are not included as they are not accepted by the Company

CORDES LAKES WATER COMPANY  
Docket No. W-02060A-12-0356  
Test Year Ended December 31, 2011

**Schedule B-2F**

**RATE BASE ADJUSTMENTS for Post Test Year Plant**

**Pumping Equipment**

Depreciation Rate 12.5%

|              | Installed Plant<br>per year | Total Installed Plant           | Depreciation<br>(With half Year<br>Convention) |
|--------------|-----------------------------|---------------------------------|--|
| 2013         | 7,680                       | 16,324                          | 1,560  |
| 2012         | 8,644                       | 8,644                           | 1,080  |
| <b>Total</b> | <b>16,324</b>               | <b>Accumulated Depreciation</b> | <b>2,641</b>                                   |

CORDES LAKES WATER COMPANY  
Docket No. W-02060A-12-0356  
Test Year Ended December 31, 2011

**Schedule C**  
**Adjusted Test Year Income**  
**Statement**

| Line                       | Acct   | Description                                   | Company as<br>Filed | Staff as<br>Adjusted | Company<br>Adjustments | Company as<br>Revised | Proposed<br>Rate<br>Increase | Adjusted Test<br>Year With<br>Rate Increase |
|----------------------------|--------|---|---------------------|----------------------|------------------------|-----------------------|------------------------------|---|
| <b>Operating Revenues:</b> |        |   |                     |                      |                        |                       |                              |   |
| 1                          | 461    | Metered Water Revenue                         | \$ 403,353          | \$ 412,446           | \$ -                   | \$ 412,446            | \$ 50,271                    | \$ 462,717                                  |
| 2                          | 460    | Unmetered Water Revenue                       | -                   | -                    | -                      | -                     | -                            | -   |
| 3                          | 474    | Other Water Revenue                           | 640                 | 8,090                | -                      | 8,090                 | -                            | 8,090                                       |
| 4                          |        | Received For Contract Labor                   | 167,692             | -                    | -                      | -                     | -                            | -   |
| 5                          |        | <b>Total Operating Revenue</b>                | <b>\$ 571,685</b>   | <b>\$ 420,536</b>    | <b>\$ -</b>            | <b>\$ 420,536</b>     | <b>\$ 50,271</b>             | <b>\$ 470,807</b>                           |
| <b>Operating Expenses:</b> |        |   |                     |                      |                        |                       |                              |   |
| 6                          |        | <b>Operating Expenses:</b>                    |                     |                      |                        |                       |                              |   |
| 7                          | 601    | Salaries and Wages                            | \$ 309,095          | \$ 141,403           | \$ -                   | \$ 141,403            | \$ -                         | \$ 141,403                                  |
|                            |        | Contract Labor                                | 10,312              | 10,312               | -                      | 10,312                | -                            | 10,312                                      |
| 8                          | 604    | Employee Pensions and Benefits                | 29,422              | 29,422               | -                      | 29,422                | -                            | 29,422                                      |
| 9                          | 610    | Purchased Water                               | -                   | -                    | -                      | -                     | -                            | -   |
| 10                         | 615    | Purchased Power                               | 31,723              | 31,723               | 917                    | 32,640                | -                            | 32,640                                      |
| 11                         | 618    | Chemicals                                     | -                   | -                    | -                      | -                     | -                            | -   |
| 12                         |        | Repairs and Maintenance                       | 12,650              | 13,662               | -                      | 13,662                | -                            | 13,662                                      |
| 13                         | 621    | Office Supplies and Expense                   | 14,491              | 14,491               | -                      | 14,491                | -                            | 14,491                                      |
| 14                         | 630    | Contractual Services - Billing                | 24,118              | 24,118               | -                      | 24,118                | -                            | 24,118                                      |
| 15                         |        | Contractual Services - Accounting             | 3,660               | 3,660                | 6,340                  | 10,000                | -                            | 10,000                                      |
| 16                         |        | Contractual Services - Computer Programmin    | 3,511               | 3,511                | -                      | 3,511                 | -                            | 3,511                                       |
| 17                         |        | Water Testing                                 | 1,806               | 5,858                | -                      | 5,858                 | -                            | 5,858                                       |
| 18                         | 640    | Rents   | 28,150              | 28,150               | -                      | 28,150                | -                            | 28,150                                      |
| 19                         | 650    | Transportation Expenses                       | 8,995               | 8,995                | -                      | 8,995                 | -                            | 8,995                                       |
| 20                         |        | Insurance - General Liability                 | 33,033              | 33,033               | -                      | 33,033                | -                            | 33,033                                      |
|                            |        | Insurance - Health and Life                   | 14,936              | 14,936               | -                      | 14,936                | -                            | 14,936                                      |
| 21                         | 665    | Rate Case Expense                             | -                   | -                    | -                      | 6,000                 | -                            | 6,000                                       |
|                            |        | Regulatory Expense                            | -                   | -                    | -                      | -                     | -                            | -   |
| 22                         | 670    | Bad Debt Expense                              | -                   | -                    | -                      | 4,049                 | -                            | 4,049                                       |
| 23                         | 675    | Miscellaneous Expenses - Permits              | 2,000               | 2,000                | -                      | 2,000                 | -                            | 2,000                                       |
|                            |        | Miscellaneous Expenses - Travel               | -                   | -                    | -                      | -                     | -                            | -   |
|                            |        | Miscellaneous Expenses - Utilities Except Ele | 3,391               | 3,391                | -                      | 3,391                 | -                            | 3,391                                       |
|                            |        | Miscellaneous Expenses - Bank Charges         | 1,304               | 1,304                | -                      | 1,304                 | -                            | 1,304                                       |
|                            |        | Miscellaneous Expenses - Payroll Services     | 859                 | 859                  | -                      | 859                   | -                            | 859   |
| 24                         | 403    | Depreciation Expenses                         | 37,195              | 18,547               | 2,961                  | 21,508                | -                            | 21,508                                      |
| 25                         |        | Payroll Taxes                                 | 175                 | 175                  | -                      | 175                   | -                            | 175   |
| 26                         | 408.11 | Property Taxes                                | 18,187              | 23,429               | -                      | 23,428                | 936                          | 24,364                                      |
| 27                         | 409    | Income Taxes                                  | 45                  | 1,362                | -                      | 1,362                 | 6,081                        | 7,443                                       |
| 28                         | 427.4  | Interest Expense - Customer Deposits          | -                   | 1,050                | -                      | 1,050                 | -                            | 1,050                                       |
| 29                         |        | <b>Total Operating Expenses</b>               | <b>\$ 589,058</b>   | <b>\$ 415,391</b>    | <b>\$ 10,218</b>       | <b>\$ 435,658</b>     | <b>\$ 7,017</b>              | <b>\$ 442,675</b>                           |
| 28                         |        | <b>OPERATING INCOME/(LOSS)</b>                | <b>\$ (17,373)</b>  | <b>\$ 5,145</b>      | <b>\$ -</b>            | <b>\$ (15,122)</b>    | <b>\$ 43,254</b>             | <b>\$ 28,132</b>                            |

CORDES LAKES WATER COMPANY  
Docket No. W-02060A-12-0356  
Test Year Ended December 31, 2011

Schedule C-3  
Computation of Gross Revenue Conversion Factor

| LINE NO.   | DESCRIPTION  | (A)         | (B)       | (C)        | (D)      |
|--|--|-------------|-----------|------------|----------|
| <u>Calculation of Gross Revenue Conversion Factor:</u> |  |             |           |            |          |
| 1  | Revenue  | 100.0000%   |           |            |          |
| 2  | Uncollectible Factor (Line 11)   | 0.7614%     |           |            |          |
| 3  | Revenues (L1 - L2)   | 99.2386%    |           |            |          |
| 4  | Combined Federal and State Tax Rate (Line 17) + Property Tax Factor (Line 22)                        | 22.3951%    |           |            |          |
| 5  | Subtotal (L3 - L4)   | 76.8435%    |           |            |          |
| 6  | Revenue Conversion Factor (L1 / L5)  | 1.301346    |           |            |          |
| <u>Calculation of Uncollectible Factor:</u>            |  |             |           |            |          |
| 7  | Unity  | 100.0000%   |           |            |          |
| 8  | Combined Federal and State Tax Rate (Line 17)  | 20.9228%    |           |            |          |
| 9  | One Minus Combined Income Tax Rate (L7 - L8)   | 79.0772%    |           |            |          |
| 10   | Uncollectible Rate   | 0.9629%     |           |            |          |
| 11   | Uncollectible Factor (L9 * L10)  | 0.7614%     |           |            |          |
| <u>Calculation of Effective Tax Rate:</u>              |  |             |           |            |          |
| 12   | Operating Income Before Taxes (Arizona Taxable Income)   | 100.0000%   |           |            |          |
| 13   | Arizona State Income Tax Rate  | 6.9680%     |           |            |          |
| 14   | Federal Taxable Income (L12 - L13)   | 93.0320%    |           |            |          |
| 15   | Applicable Federal Income Tax Rate (Line 53)   | 15.0000%    |           |            |          |
| 16   | Effective Federal Income Tax Rate (L14 x L15)  | 13.9548%    |           |            |          |
| 17   | Combined Federal and State Income Tax Rate (L13 + L16)   | 20.9228%    |           |            |          |
| <u>Calculation of Effective Property Tax Factor:</u>   |  |             |           |            |          |
| 18   | Unity  | 100.0000%   |           |            |          |
| 19   | Combined Federal and State Tax Rate (Line 17)  | 20.9228%    |           |            |          |
| 20   | One Minus Combined Income Tax Rate (L18 - L19)   | 79.0772%    |           |            |          |
| 21   | Property Tax Factor (MJR-17, L24)  | 1.8618%     |           |            |          |
| 22   | Effective Property Tax Factor (L21 * L22)  | 1.4723%     |           |            |          |
| 23   | Combined Federal and State Tax and Property Tax Rate (L17+L22)                                       |             | 22.3951%  |            |          |
| 24   | Required Operating Income (Schedule MJR-1, Line 5)   | \$ 23,508   |           |            |          |
| 25   | Adjusted Test Year Operating Income (Loss) (Schedule MJR-11, Line 40)                                | \$ (15,122) |           |            |          |
| 26   | Required Increase in Operating Income (L24 - L25)  |             | \$ 38,630 |            |          |
| 27   | Income Taxes on Recommended Revenue (Col. (D), L52)  | \$ 7,443    |           |            |          |
| 28   | Income Taxes on Test Year Revenue (Col. (B), L52)  | \$ (2,879)  |           |            |          |
| 29   | Required Increase in Revenue to Provide for Income Taxes (L27 - L28)                                 |             | \$ 10,322 |            |          |
| 30   | Recommended Revenue Requirement (Schedule MJR-1, Line 10)  | \$ 470,807  |           |            |          |
| 31   | Uncollectible Rate (Line 10)   | 0.9629%     |           |            |          |
| 32   | Uncollectible Expense on Recommended Revenue (L24 * L25)   | \$ 4,533    |           |            |          |
| 33   | Adjusted Test Year Uncollectible Expense   | \$ 4,049    |           |            |          |
| 34   | Required Increase in Revenue to Provide for Uncollectible Exp. (L32 - L33)                           |             | \$ 484    |            |          |
| 35   | Property Tax with Recommended Revenue (MJR-17, L19)  | \$ 24,364   |           |            |          |
| 36   | Property Tax on Test Year Revenue (MJR-17, L16)  | \$ 23,428   |           |            |          |
| 37   | Increase in Property Tax Due to Increase in Revenue (MJR-17, L22)                                    |             | \$ 936    |            |          |
| 38   | Total Required Increase in Revenue (L26 + L29 + L34+L37)   |             | \$ 50,372 |            |          |
| <u>Calculation of Income Tax:</u>                      |  |             |           |            |          |
| 39   | Revenue (Schedule MJR-11, Col. (C), Line 5 & Sch. MJR-1, Col. (B), Line 10)                          | \$ 420,536  | \$ 50,271 | \$ 470,807 |          |
| 40   | Operating Expenses Excluding Income Taxes  | \$ 434,296  |           | \$ 435,232 |          |
| 41   | Synchronized Interest (L47)  | \$ -        |           | \$ -       |          |
| 42   | Arizona Taxable Income (L36 - L317- L38)   | \$ (13,760) |           | \$ 35,575  |          |
| 43   | Arizona State Income Tax Rate  | 6.9680%     |           | 6.9680%    |          |
| 44   | Arizona Income Tax (L39 x L40)   |             | \$ (959)  |            | \$ 2,479 |
| 45   | Federal Taxable Income (L42- L43)  | \$ (12,801) |           | \$ 33,096  |          |
| 46   | Federal Tax on First Income Bracket (\$1 - \$50,000) @ 15%   | \$ (1,920)  |           | \$ 4,964   |          |
| 47   | Federal Tax on Second Income Bracket (\$50,001 - \$75,000) @ 25%                                     | \$ -        |           | \$ -       |          |
| 48   | Federal Tax on Third Income Bracket (\$75,001 - \$100,000) @ 34%                                     | \$ -        |           | \$ -       |          |
| 49   | Federal Tax on Fourth Income Bracket (\$100,001 - \$335,000) @ 39%                                   | \$ -        |           | \$ -       |          |
| 50   | Federal Tax on Fifth Income Bracket (\$335,001 - \$10,000,000) @ 34%                                 | \$ -        |           | \$ -       |          |
| 51   | Total Federal Income Tax   | \$ (1,920)  |           | \$ 4,964   |          |
| 52   | Combined Federal and State Income Tax (L44 + L51)  | \$ (2,879)  |           | \$ 7,443   |          |
| 53   | Applicable Federal Income Tax Rate [Col. (D), L51 - Col. (B), L51] / [Col. (C), L45 - Col. (A), L45] |             |           |            | 15.0000% |
| <u>Calculation of Interest Synchronization:</u>        |  |             |           |            |          |
| 54   | Rate Base (Schedule MJR-3, Col. (C), Line 17)  | \$ 222,825  |           |            |          |
| 55   | Weighted Average Cost of Debt  | 0.00%       |           |            |          |
| 56   | Synchronized Interest (L54 X L56)  | \$ -        |           |            |          |

CORDES LAKES WATER COMPANY  
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Test Year Ended December 31, 2011

Schedule C-4

**OPERATING INCOME ADJUSTMENT #5 - PROPERTY TAXES**

| LINE NO. | Property Tax Calculation  | COMPANY AS ADJUSTED | COMPANY RECOMMENDED |
|----------|---|---------------------|---------------------|
| 1        | Company Adjusted Test Year Revenues - 2011                                | \$ 420,536          | \$ 420,536          |
| 2        | Weight Factor   | 2                   | 2                   |
| 3        | Subtotal (Line 1 * Line 2)  | 841,072             | \$ 841,072          |
| 4        | Company Recommended Revenue, Per Schedule MJR-1                           | 420,536             | \$ 470,807          |
| 5        | Subtotal (Line 4 + Line 5)  | 1,261,608           | 1,311,879           |
| 6        | Number of Years   | 3                   | 3                   |
| 7        | Three Year Average (Line 5 / Line 6)                                      | 420,536             | 437,293             |
| 8        | Department of Revenue Multiplier  | 2                   | 2                   |
| 9        | Revenue Base Value (Line 7 * Line 8)                                      | 841,072             | 874,586             |
| 10       | Plus: 10% of CWIP -   | -                   | -                   |
| 11       | Less: Net Book Value of Licensed Vehicles                                 | 2,171               | 2,171               |
| 12       | Full Cash Value (Line 9 + Line 10 - Line 11)                              | 838,901             | \$ 872,415          |
| 13       | Assessment Ratio  | 20.0%               | 20.0%               |
| 14       | Assessment Value (Line 12 * Line 13)                                      | 167,780             | \$ 174,483          |
| 15       | Composite Property Tax Rate   | 13.9638%            | 13.9638%            |
| 16       | Company Test Year Adjusted Property Tax (Line 14 * Line 15)               | \$ 23,428           | \$ -                |
| 17       |   |                     |                     |
| 18       |   |                     |                     |
| 19       | Property Tax - Company Recommended Revenue (Line 14 * Line 15)            |                     | \$ 24,364           |
| 20       | Company Test Year Adjusted Property Tax Expense (Line 16)                 |                     | \$ 23,428           |
| 21       | Increase in Property Tax Expense Due to Increase in Revenue Requirement   |                     | \$ 936              |
| 22       | Increase to Property Tax Expense  |                     | \$ 936              |
| 23       | Increase in Revenue Requirement   |                     | 50,271              |
| 24       | Increase to Property Tax per Dollar Increase in Revenue (Line 22/Line 23) |                     | 1.861840%           |



CORDES LAKES WATER COMPANY

Docket No. W-02060A-12-0356

Test Year Ended December 31, 2011

**Schedule C-5**

|                                     | <b>Rate Case Expense</b> |
|-------------------------------------|--------------------------|
| Expense                             | 18,000                   |
| <u>Ammortization Period (years)</u> | <u>3</u>                 |
|                                     | 6000                     |

CORDES LAKES WATER COMPANY  
Docket No. W-02060A-12-0356  
Test Year Ended December 31, 2011

Schedule C-6 Depreciation Expense Adjustment

| Line No. | ACCT NO. | DESCRIPTION                          | Depreciable Amount | Depreciable Amount Per Staff | Add Back Amounts from Staff Rate base Adjustment #3 | Depreciable Amount Per Company | Depreciation Rate | Depreciation Expense   |
|----------|----------|--------------------------------------|--------------------|------------------------------|---|--------------------------------|-------------------|--|
|          |          | <b>Plant In Service</b>              |                    |                              |   |                                |                   |  |
| 1        | 301      | Organization                         | \$ -               | \$ -                         | \$ -  | \$ -                           | 0.00%             | \$ -   |
| 2        | 302      | Franchises                           | -                  | -                            | -   | -                              | 0.00%             | -  |
| 3        | 303      | Land and Land Rights                 | -                  | -                            | -   | -                              | 0.00%             | -  |
| 4        | 304      | Structures & Improvements            | 6,657              | 4,400                        | -   | 4,400                          | 3.33%             | 147  |
| 5        | 305      | Collecting & Impounding Reservoirs   | -                  | -                            | -   | -                              | 2.50%             | -  |
| 6        | 306      | Lakes, Rivers, Other Intakes         | -                  | -                            | -   | -                              | 2.50%             | -  |
| 7        | 307      | Wells and Springs                    | 167,348            | 151,979                      | -   | 151,979                        | 3.33%             | 5,061  |
| 8        | 308      | Infiltration Galleries and Tunnels   | -                  | -                            | -   | -                              | 6.67%             | -  |
| 9        | 309      | Supply Mains                         | -                  | -                            | -   | -                              | 2.00%             | -  |
| 10       | 310      | Power Generation Equipment           | -                  | -                            | -   | -                              | 5.00%             | -  |
| 11       | 311      | Pumping Equipment                    | 26,588             | 16,030                       | -   | 16,030                         | 12.50%            | 2,004  |
| 12       | 320      | Water Treatment Plant                | -                  | -                            | -   | -                              | 3.33%             | -  |
| 13       | 330      | Distribution Reservoirs & Standpipes | 141,632            | 94,458                       | -   | 94,458                         | 2.22%             | 2,097  |
| 14       | 331      | Transmission & Distribution Mains    | 581,937            | 19,442                       | (3,898)   | 15,544                         | 2.00%             | 311  |
| 15       | 333      | Services                             | 19,350             | -                            | -   | -                              | 3.33%             | -  |
| 16       | 334      | Meters & Meter Installation          | 54,817             | 47,078                       | 16,025  | 63,103                         | 8.33%             | 5,256  |
| 17       | 335      | Hydrants                             | -                  | -                            | -   | -                              | 2.00%             | -  |
| 18       | 336      | Backflow Prevention Devices          | -                  | -                            | -   | -                              | 6.67%             | -  |
| 19       | 339      | Other Plant & Misc. Equipment        | 60,550             | 60,550                       | 1,235   | 61,785                         | 6.67%             | 4,121  |
| 20       | 340      | Office Furniture & Equipment         | 6,101              | 6,101                        | 926   | 7,027                          | 6.67%             | 469  |
| 21       | 341      | Transportation Equipment             | 71,461             | 2,412                        | -   | 2,412                          | 20.00%            | 482  |
| 22       | 342      | Stores Equipment                     | -                  | -                            | -   | -                              | 4.00%             | -  |
| 23       | 343      | Tools, Shop & Garage Equipment       | -                  | -                            | -   | -                              | 5.00%             | -  |
| 24       | 344      | Laboratory Equipment                 | -                  | -                            | -   | -                              | 10.00%            | -  |
| 25       | 345      | Power Operated Equipment             | -                  | -                            | -   | -                              | 5.00%             | -  |
| 26       | 346      | Communication Equipment              | -                  | -                            | -   | -                              | 10.00%            | -  |
| 27       | 347      | Miscellaneous Equipment              | 582                | -                            | -   | -                              | 10.00%            | -  |
| 28       | 348      | Other Tangible Plant                 | -                  | -                            | -   | -                              | 0.00%             | -  |
|          |          |                                      |                    |                              |   |                                |                   | <b>Total Depreciation Expense \$ 19,948 a</b>                                  |
|          |          |                                      |                    |                              |   |                                |                   | <b>Staff Depreciation Expense \$ 18,547 b</b>                                  |
|          |          |                                      |                    |                              |   |                                |                   | <b>Adjustment for Reversal of Staff Rate base Adjustment #3 \$ 1,401 c=a-b</b> |
|          |          |                                      |                    |                              |   |                                |                   | <b>Depreciation Expense Associated With Post Test Year Plant \$ 1,560 d</b>    |
|          |          |                                      |                    |                              |   |                                |                   | <b>TOTAL ADJUSTMENT \$ 2,961 e=d+c</b>   |

| Monthly Usage Charge | Present Rates       |        | -Proposed Rates-      |           |
|----------------------|---------------------|--------|-----------------------|-----------|
|                      | Company Application |        | Company Staff Revised |           |
| 5/8" x 3/4" Meter    | N/A                 | N/A    | N/A                   |           |
| 3/4" Meter           | 11.00               | 13.50  | 11.00                 | \$ 13.65  |
| 1" Meter             | 19.50               | 24.50  | 19.50                 | \$ 23.58  |
| 1 1/2" Meter         | 39.00               | 48.75  | 39.00                 | \$ 48.40  |
| 2" Meter             | 62.50               | 78.00  | 62.50                 | \$ 77.56  |
| 3" Meter             | 125.00              | 156.00 | 125.00                | \$ 155.11 |
| 4" Meter             | 220.00              | 275.00 | 220.00                | \$ 273.00 |
| 6" Meter             | 390.00              | 485.00 | 390.00                | \$ 483.95 |

Commodity Rate Charge

|                             |                           |      |      |      |
|-----------------------------|---------------------------|------|------|------|
| 3/4" Meter                  |                           |      |      |      |
| Tier 1                      | From 0 to 3,000 gallons   | 2.80 | 3.30 | 2.80 |
| Tier 2                      | From 3,001 to 8,000 galls | 4.30 | 5.25 | 4.50 |
| Tier 3                      | Over 8,000 gallons        | 5.00 | 6.00 | 5.40 |
| 1" Meter                    |                           |      |      |      |
| Tier 1                      | From 0 to 18,000 gallons  | 4.30 | 5.25 | 4.50 |
| Tier 2                      | Over 18,000 gallons       | 5.00 | 6.00 | 5.40 |
| 1 1/2" Meter                |                           |      |      |      |
| Tier 1                      | From 0 to 43,500 gallons  | 4.30 | 5.25 | 4.50 |
| Tier 2                      | Over 43,500 gallons       | 5.00 | 6.00 | 5.40 |
| 2" Meter                    |                           |      |      |      |
| Tier 1                      | From 0 to 75,000 gallons  | 4.30 | 5.25 | 4.50 |
| Tier 2                      | Over 75,000 gallons       | 5.00 | 6.00 | 5.40 |
| 3" Meter                    |                           |      |      |      |
| Tier 1                      | From 0 to 160,000 gallon: | 4.30 | 5.25 | 4.50 |
| Tier 2                      | Over 160,000 gallons      | 5.00 | 6.00 | 5.40 |
| 4" Meter                    |                           |      |      |      |
| Tier 1                      | From 0 to 290,000 gallon: | 4.30 | 5.25 | 4.50 |
| Tier 2                      | Over 290,000 gallons      | 5.00 | 6.00 | 5.40 |
| 6" Meter                    |                           |      |      |      |
| Tier 1                      | From 0 to 530,000 gallon: | 4.30 | 5.25 | 4.50 |
| Tier 2                      | Over 530,000 gallons      | 5.00 | 6.00 | 5.40 |
| Gallons Included in Minimum |                           | 0    | 0    | 0    |

Present Rates Company and Staff

| Service Line and Meter Installation Charges | Present Rates Company and Staff |              |                    |          |
|---|---------------------------------|--------------|--------------------|----------|
|   | Total                           | Service Line | Meter Installation | Total    |
| 5/8" x 3/4" Meter                           | N/T                             | N/T          | N/T                | N/T      |
| 3/4" Meter                                  | 520.00                          | 426.00       | 198.00             | 624.00   |
| 1" Meter                                    | 610.00                          | 486.00       | 246.00             | 732.00   |
| 1 1/2" Meter                                | 855.00                          | 528.00       | 498.00             | 1,026.00 |
| 2" Meter                                    | 1,515.00                        | 720.00       | 1,098.00           | 1,818.00 |
| 2" Meter                                    | 2,195.00                        | 930.00       | 1,764.00           | 2,694.00 |
| 3" Meter                                    | 2,195.00                        | 930.00       | 1,764.00           | 2,694.00 |
| 3" Meter                                    | 6,115.00                        | 1,332.00     | 2,700.00           | 4,032.00 |
| 4" Meter                                    | 3,360.00                        | 1,332.00     | 2,700.00           | 4,032.00 |
| 4" Meter                                    | 3,020.00                        | 1,050.00     | 1,970.00           | 3,020.00 |
| 6" Meter                                    | 6,115.00                        | 2,000.00     | 5,350.00           | 7,350.00 |
| 6" Meter (Compound)                         | 5,960.00                        | 1,250.00     | 4,710.00           | 5,960.00 |
| 8" Meter (Turbine)                          | Cost                            | Cost         | Cost               | Cost     |
| 10" Meter (Turbine)                         | Cost                            | Cost         | Cost               | Cost     |
| 12" Meter (Turbine)                         | Cost                            | Cost         | Cost               | Cost     |

Service Charges

| Present Rates Company and Staff       |                 |
|---------------------------------------|-----------------|
| Establishment                         | \$25.00 \$30.00 |
| Establishment (After Hours)           | \$35.00 NT      |
| Reconnection (Delinquent)             | \$15.00 \$20.00 |
| Reconnection (Delinquent) After Hours | \$25.00 NT      |
| NSF Check                             | \$12.50 \$15.00 |
| Meter Re-Read (If Correct)            | \$10.00 \$12.00 |
| Meter Test (If Correct)               | \$25.00 \$30.00 |
| Deferred Payment (per Month)          | 1.5% ***        |

\* Per Commission Rules (R14-2-403.B)

\*\* Months off system times the minimum (R14-2-403.D)

\*\*\* 1.5% on the unpaid balance per month

\*\*\*\* 2.00% of Monthly Minimum for a Comparable Sized Meter Connection, but no less than \$10.00 per month. The Service Charge for Fire Sprinkler is only applicable for service lines separate and distinct from the primary water service line.

CORDES LAKES WATER COMPANY

Docket No. W-02060A-12-0356

Test Year Ended December 31, 2011

**Schedule H-4**

| Median Customer Usage<br>3088 Gallons |    |       |             |            |
|---------------------------------------|----|-------|-------------|------------|
|                                       |    |       | \$ Increase | % Increase |
| Bill at present rates                 | \$ | 19.78 |             |            |
| Bill at Staff's Proposed Rate         | \$ | 19.80 | \$ 0.02     | 0.09%      |
| Bill at Company's Proposed Rates      | \$ | 22.48 | \$ 2.70     | 13.64%     |

| Average Customer Usage<br>4169 Gallons |    |       |             |            |
|--|----|-------|-------------|------------|
|  |    |       | \$ Increase | % Increase |
| Bill at present rates                  | \$ | 24.43 |             |            |
| Bill at Staff's Proposed Rate          | \$ | 24.66 | \$ 0.23     | 0.96%      |
| Bill at Company's Proposed Rates       | \$ | 27.34 | \$ 2.91     | 11.93%     |

# **EXHIBIT 1**

## EXHIBIT 1

### **Matthew Rowell**

PO Box 51628  
Phoenix, AZ 85076  
480 961 5484 or 602 762 0100  
[mattrowell@cox.net](mailto:mattrowell@cox.net)

#### **Professional History**

- **Desert Mountain Analytical Services, PLLC (DMAS) 2007 – Present**

*Managing Member*

DMAS is a small consulting firm specializing in utility finance, ratemaking and other regulatory issues. DMAS' clients range in size from large multinational corporations to small rural utilities.

- **Arizona Corporation Commission 1996 to 2007**

*Chief Economist (July 2001 to February 2007)*

Analyzed and produced testimony or staff reports on a wide variety of utility issues.  
Supervised a staff of nine professionals with similar responsibilities.

*Economist (October 1996 to July 2001)*

Analyzed and produced testimony or staff reports on a wide variety of utility issues.

#### **Education**

- **Master of Science and ABD Economics, 1995, Arizona State University.**  
Successfully completed all course work and exams necessary for a Ph.D. Course work included an emphasis in industrial organization and extensive experience with statistical analysis, public sector economics, and financial economics.
- **Bachelor of Science Economics, 1992, Florida State University.**  
Minors: Philosophy, Statistics.

#### **Certifications**

**Certified Rate of Return Analyst** designation awarded by the Society of Utility and Regulatory Financial Analysts based on experience and successful completion of a written examination.

## EXHIBIT 1

### List of Specific Projects

#### Global Water Resources

Provided expert testimony regarding Global's cost of capital and rate consolidation. Created the bill-count data necessary for rate design. Consulted on the totality of schedules and testimony, Docket No. SW-20445A-12-0309.

Provided expert testimony regarding Global's financial viability and regulatory status before an arbitration panel. American Arbitration Association Case Nos. 76 198 Y 0104 11JMLE and 76 198 Y 0105 11 JMLE.

Provided strategic advice and analysis to Global re the ACC's ongoing water workshops.

Rate case testimony: Cost of Capital, Rate Consolidation, treatment of Infrastructure Coordination and Finance Agreements, Docket No. W-20446A-09-0080.

Prepared and sponsored testimony on Global's Notice of Intent to Restructure, Docket No. W-20446A-08-0247.

Provided strategic guidance regarding the Arizona Water complaint against Global, Docket No. W-01445A-06-0200.

#### Ray Water Company, Inc.

Provided expert testimony regarding Ray Water Company's cost of capital, Docket No. W-01380A-12-0254.

#### EPCOR Utilities, Inc.

Provided strategic advice on the Arizona regulatory environment as it relates to EPCOR's purchase of Arizona utilities.

#### Rio Rico Properties

Testimony in the Rio Rico Utilities rate case, Docket No. WS-02676A-09-0257.

#### Residential Utility Consumer Office

Testimony re affiliate relations in the Litchfield Park Service Company Rate Case, Docket No. SW-01428A-09-0103.

#### Other

Assisted with financial analysis, rate design and other rate case testimony and schedules for East Slope, Antelope Run, Indiada, Southland, Valle Verde and other small water companies.

#### ACC Staff

APS Rate Case E-01345A-05-0816: Provided testimony on staff's position on APS' proposed Environmental Improvement Charge. Also acted as the overall case manager and was responsible for coordinating all of staff's testimony.

APS Application to acquire a power plant in the Yuma area E-01345A-06-0464: Provided testimony detailing Staff's position on the application.

## EXHIBIT 1

Southern California Edison's application to build a high voltage power line linking Arizona to Southern California L-00000A-06-0295-00130: Provided testimony detailing the potential economic effects of SCE's proposed power line.

Managed Staff's case (including negotiating a settlement agreement) in APS' 2003 rate case.

Negotiated (along with other Staff members) the settlement between staff and Qwest regarding three enforcement dockets.

Supervised the "independent monitor" of APS' and Tucson Electric Power's wholesale power procurement.

Staff's lead witness in the Commission's reevaluation of the electric competition rules which resulted in the suspension of APS' and TEP's obligation to divest their generation assets (E-00000A-02-0051.)

Acted as Chairman of the Commission's Water Task Force.

Accipiter's complaint against Cox Communications regarding the Vistancia development T-03471A-05-0064: Provided testimony regarding Accipiter's allegations concerning Cox's dealings with the developers of Vistancia.

Provided testimony on Qwest's noncompliance with the Commission's wholesale rate order.

Managed Staff's case regarding Qwest's alleged noncompliance with the Federal Telecommunications Act.

Supervised the testing of Qwest's operational support systems (OSS) and the development of Qwest's Performance Assurance Plan as part of Qwest's compliance with Section 271 of the Federal Telecommunications Act.

Provided testimony on the geographic de-averaging of Qwest's Unbundled Network Element prices.



## **EXHIBIT 2**

| Billing Group                   | Trans # | Trans Description  | Reference | Account #   | Account Name | Posting Date | Debit    | Credit |
|---------------------------------|---------|--------------------|-----------|-------------|--------------|--------------|----------|--------|
| Billing Group: Billing Cycle 01 |         |                    |           |             |              |              |          |        |
| GL Account: Write Off Bad Debt  |         |                    |           |             |              |              |          |        |
| Billing Cycle 01                | 1625566 | Write Off Bad Debt |           | 00010016-01 |              | 10/28/2011   | \$86.57  |        |
| Billing Cycle 01                | 1625567 | Write Off Bad Debt |           | 00010017-01 |              | 10/28/2011   | \$63.62  |        |
| Billing Cycle 01                | 1625568 | Write Off Bad Debt |           | 00010099-04 |              | 10/28/2011   | \$63.62  |        |
| Billing Cycle 01                | 1625569 | Write Off Bad Debt |           | 00010146-01 |              | 10/28/2011   | \$80.08  |        |
| Billing Cycle 01                | 1625570 | Write Off Bad Debt |           | 00010237-05 |              | 10/28/2011   | \$52.17  |        |
| Billing Cycle 01                | 1625571 | Write Off Bad Debt |           | 00010248-05 |              | 10/28/2011   | \$19.81  |        |
| Billing Cycle 01                | 1625572 | Write Off Bad Debt |           | 00010254-13 |              | 10/28/2011   | \$34.88  |        |
| Billing Cycle 01                | 1625573 | Write Off Bad Debt |           | 00010270-05 |              | 10/28/2011   | \$50.32  |        |
| Billing Cycle 01                | 1625574 | Write Off Bad Debt |           | 00010292-06 |              | 10/28/2011   | \$63.27  |        |
| Billing Cycle 01                | 1625575 | Write Off Bad Debt |           | 00010295-03 |              | 10/28/2011   | \$29.25  |        |
| Billing Cycle 01                | 1625576 | Write Off Bad Debt |           | 00010309-05 |              | 10/28/2011   | \$57.12  |        |
| Billing Cycle 01                | 1625577 | Write Off Bad Debt |           | 00010312-03 |              | 10/29/2011   | \$104.34 |        |
| Billing Cycle 01                | 1625578 | Write Off Bad Debt |           | 00010327-01 |              | 10/29/2011   | \$72.22  |        |
| Billing Cycle 01                | 1625579 | Write Off Bad Debt |           | 00010328-08 |              | 10/29/2011   | \$4.42   |        |
| Billing Cycle 01                | 1625580 | Write Off Bad Debt |           | 00010335-02 |              | 10/29/2011   | \$65.84  |        |
| Billing Cycle 01                | 1625581 | Write Off Bad Debt |           | 00010349-06 |              | 10/29/2011   | \$35.14  |        |
| Billing Cycle 01                | 1625582 | Write Off Bad Debt |           | 00010372-01 |              | 10/29/2011   | \$83.39  |        |
| Billing Cycle 01                | 1625583 | Write Off Bad Debt |           | 00010389-01 |              | 10/29/2011   | \$26.44  |        |
| Billing Cycle 01                | 1625584 | Write Off Bad Debt |           | 00010436-02 |              | 10/29/2011   | \$54.99  |        |
| Billing Cycle 01                | 1625585 | Write Off Bad Debt |           | 00010501-01 |              | 10/29/2011   | \$149.53 |        |
| Billing Cycle 01                | 1625586 | Write Off Bad Debt |           | 00010512-03 |              | 10/29/2011   | \$10.52  |        |
| Billing Cycle 01                | 1625587 | Write Off Bad Debt |           | 00010569-05 |              | 10/29/2011   | \$5.16   |        |
| Billing Cycle 01                | 1625588 | Write Off Bad Debt |           | 00010570-05 |              | 10/29/2011   | \$43.05  |        |
| Billing Cycle 01                | 1625589 | Write Off Bad Debt |           | 00010587-06 |              | 10/29/2011   | \$57.61  |        |
| Billing Cycle 01                | 1625590 | Write Off Bad Debt |           | 00010592-04 |              | 10/29/2011   | \$16.61  |        |
| Billing Cycle 01                | 1625591 | Write Off Bad Debt |           | 00010605-01 |              | 10/29/2011   | \$1.05   |        |
| Billing Cycle 01                | 1625592 | Write Off Bad Debt |           | 00010610-02 |              | 10/29/2011   | \$1.93   |        |
| Billing Cycle 01                | 1625593 | Write Off Bad Debt |           | 00010631-02 |              | 10/29/2011   | \$42.90  |        |
| Billing Cycle 01                | 1625594 | Write Off Bad Debt |           | 00010664-04 |              | 10/29/2011   | \$41.78  |        |
| Billing Cycle 01                | 1625595 | Write Off Bad Debt |           | 00010683-04 |              | 10/29/2011   | \$213.17 |        |
| Billing Cycle 01                | 1625596 | Write Off Bad Debt |           | 00010774-04 |              | 10/29/2011   | \$6.24   |        |
| Billing Cycle 01                | 1625597 | Write Off Bad Debt |           | 00010800-03 |              | 10/29/2011   | \$25.02  |        |
| Billing Cycle 01                | 1625598 | Write Off Bad Debt |           | 00010807-01 |              | 10/29/2011   | \$9.04   |        |
| Billing Cycle 01                | 1625599 | Write Off Bad Debt |           | 00010823-08 |              | 10/29/2011   | \$1.10   |        |
| Billing Cycle 01                | 1625600 | Write Off Bad Debt |           | 00010823-09 |              | 10/29/2011   | \$26.52  |        |
| Billing Cycle 01                | 1625601 | Write Off Bad Debt |           | 00010876-02 |              | 10/29/2011   | \$7.68   |        |
| Billing Cycle 01                | 1625602 | Write Off Bad Debt |           | 00010895-03 |              | 10/29/2011   | \$10.31  |        |

| Billing Group    | Trans # | Trans Description  | Reference | Account #   | Account Name | Posting Date | Debit    | Credit |
|------------------|---------|--------------------|-----------|-------------|--------------|--------------|----------|--------|
| Billing Cycle 01 | 1625603 | Write Off Bad Debt |           | 00010896-01 |              | 10/29/2011   | \$32.33  |        |
| Billing Cycle 01 | 1625604 | Write Off Bad Debt |           | 00010978-03 |              | 10/29/2011   | \$7.86   |        |
| Billing Cycle 01 | 1625605 | Write Off Bad Debt |           | 00010991-01 |              | 10/29/2011   | \$7.04   |        |
| Billing Cycle 01 | 1625606 | Write Off Bad Debt |           | 00010995-07 |              | 10/29/2011   | \$3.67   |        |
| Billing Cycle 01 | 1625607 | Write Off Bad Debt |           | 00010996-09 |              | 10/29/2011   | \$120.32 |        |
| Billing Cycle 01 | 1625608 | Write Off Bad Debt |           | 00011029-08 |              | 10/29/2011   | \$4.58   |        |
| Billing Cycle 01 | 1625609 | Write Off Bad Debt |           | 00011033-07 |              | 10/29/2011   | \$0.08   |        |
| Billing Cycle 01 | 1625610 | Write Off Bad Debt |           | 00011037-07 |              | 10/29/2011   | \$8.28   |        |
| Billing Cycle 01 | 1625611 | Write Off Bad Debt |           | 00011044-01 |              | 10/29/2011   | \$0.29   |        |
| Billing Cycle 01 | 1625612 | Write Off Bad Debt |           | 00011046-01 |              | 10/29/2011   | \$9.66   |        |
| Billing Cycle 01 | 1625613 | Write Off Bad Debt |           | 00011081-07 |              | 10/29/2011   | \$8.08   |        |
| Billing Cycle 01 | 1625614 | Write Off Bad Debt |           | 00011082-07 |              | 10/29/2011   | \$385.23 |        |
| Billing Cycle 01 | 1625615 | Write Off Bad Debt |           | 00011083-08 |              | 10/29/2011   | \$3.27   |        |
| Billing Cycle 01 | 1625616 | Write Off Bad Debt |           | 00011108-03 |              | 10/29/2011   | \$1.56   |        |
| Billing Cycle 01 | 1625617 | Write Off Bad Debt |           | 00011172-04 |              | 10/29/2011   | \$0.06   |        |
| Billing Cycle 01 | 1625619 | Write Off Bad Debt |           | 00010586-03 |              | 10/30/2011   | \$86.56  |        |
| Billing Cycle 01 | 1625620 | Write Off Bad Debt |           | 00010866-02 |              | 10/30/2011   | \$48.46  |        |
| Billing Cycle 01 | 1625621 | Write Off Bad Debt |           | 00010961-06 |              | 10/30/2011   | \$30.27  |        |
| Billing Cycle 01 | 1625622 | Write Off Bad Debt |           | 00010961-07 |              | 10/30/2011   | \$167.05 |        |
| Billing Cycle 01 | 1625623 | Write Off Bad Debt |           | 00010963-01 |              | 10/30/2011   | \$62.79  |        |
| Billing Cycle 01 | 1625624 | Write Off Bad Debt |           | 00010964-06 |              | 10/30/2011   | \$26.74  |        |
| Billing Cycle 01 | 1625625 | Write Off Bad Debt |           | 00010976-07 |              | 10/30/2011   | \$21.15  |        |
| Billing Cycle 01 | 1625626 | Write Off Bad Debt |           | 00011036-03 |              | 10/30/2011   | \$143.36 |        |
| Billing Cycle 01 | 1625627 | Write Off Bad Debt |           | 00011051-03 |              | 10/30/2011   | \$127.92 |        |
| Billing Cycle 01 | 1625628 | Write Off Bad Debt |           | 00011071-03 |              | 10/30/2011   | \$54.99  |        |
| Billing Cycle 01 | 1625629 | Write Off Bad Debt |           | 00011076-02 |              | 10/30/2011   | \$58.75  |        |
| Billing Cycle 01 | 1625630 | Write Off Bad Debt |           | 00011096-07 |              | 10/30/2011   | \$36.94  |        |
| Billing Cycle 01 | 1625631 | Write Off Bad Debt |           | 00011107-07 |              | 10/30/2011   | \$27.53  |        |
| Billing Cycle 01 | 1625632 | Write Off Bad Debt |           | 00011178-03 |              | 10/30/2011   | \$26.78  |        |
| Billing Cycle 01 | 1625633 | Write Off Bad Debt |           | 00011215-10 |              | 10/30/2011   | \$16.40  |        |
| Billing Cycle 01 | 1625634 | Write Off Bad Debt |           | 00011223-04 |              | 10/30/2011   | \$12.49  |        |
| Billing Cycle 01 | 1625635 | Write Off Bad Debt |           | 00011229-05 |              | 10/30/2011   | \$42.79  |        |
| Billing Cycle 01 | 1625636 | Write Off Bad Debt |           | 00011240-02 |              | 10/30/2011   | \$63.81  |        |
| Billing Cycle 01 | 1625637 | Write Off Bad Debt |           | 00011259-07 |              | 10/30/2011   | \$46.84  |        |
| Billing Cycle 01 | 1625638 | Write Off Bad Debt |           | 00011274-01 |              | 10/30/2011   | \$18.12  |        |
| Billing Cycle 01 | 1625639 | Write Off Bad Debt |           | 00011288-03 |              | 10/30/2011   | \$238.41 |        |
| Billing Cycle 01 | 1625640 | Write Off Bad Debt |           | 00011297-08 |              | 10/30/2011   | \$53.30  |        |
| Billing Cycle 01 | 1625641 | Write Off Bad Debt |           | 00011314-08 |              | 10/30/2011   | \$24.54  |        |
| Billing Cycle 01 | 1625642 | Write Off Bad Debt |           | 00011329-03 |              | 10/30/2011   | \$54.39  |        |
| Billing Cycle 01 | 1625643 | Write Off Bad Debt |           | 00011397-06 |              | 10/30/2011   | \$23.31  |        |



## **EXHIBIT 3**

10:26 AM

03/28/13

Accrual Basis

## CORDES LAKES WATER COMPANY

## Transactions by Account

All Transactions

| Type             | Date       | Num | Name | Memo               | Clr | Split            | Amount    | Balance   |
|------------------|------------|-----|------|--------------------|-----|------------------|-----------|-----------|
| 181 - LAND       |            |     |      |                    |     |                  |           |           |
| General Journal  | 12/31/1999 |     |      | Transactions ...   | X   |                  | 53,919.31 | 53,919.31 |
| General Journal  | 1/31/2000  |     |      | Transactions ...   | X   |                  | -500.00   | 53,419.31 |
| General Journal  | 12/31/2002 |     |      | Transactions ...   | X   |                  | -500.00   | 52,919.31 |
| General Journal  | 12/31/2005 |     |      | Transactions ...   | X   |                  | -1,500.00 | 51,419.31 |
| General Journal  | 10/4/2006  |     |      | to buy lot for ... |     | 206 - NOTE PA... | 35,180.18 | 86,599.49 |
| Deposit          | 12/8/2006  |     | MISC | SALE OF LOT...     |     | 102 - CHECK...   | -500.00   | 86,099.49 |
| Deposit          | 12/29/2006 |     | MISC | SALE OF LOT...     |     | 101 - CHECK...   | -500.00   | 85,599.49 |
| Total 181 - LAND |            |     |      |                    |     |                  | 85,599.49 | 85,599.49 |
| TOTAL            |            |     |      |                    |     |                  | 85,599.49 | 85,599.49 |

## **EXHIBIT 4**

**National Meter & Automation**  
PO Box 5429  
GREENWOOD VILLAGE CO 80155  
(303) 339-9100 FAX (303) 649-1017

# Invoice

|                 |               |
|-----------------|---------------|
| INVESTIGATIVE   | INVESTIGATIVE |
| 11-04-08        | 1515997.001   |
| TESTING BRANCH: | 784 40        |

WILLIAM  
ARIZONA WATER WORKS SUPPLY, INC  
PO BOX 219  
TAMPE, AZ 85260

Arizona Water Works Supply, Inc  
1008 W 1st St  
TEMPE, AZ 85280

| CUSTOMER NUMBER  | CUSTOMER ORDER NUMBER | RELEASE NUMBER  | SALES PERSON                      |
|--|-----------------------|---|-----------------------------------|
| 1041   | BRAD                  | 300/JD  | John Bjorklund                    |
| John Bjorklund   |                       | OT OUR TRUCK  | Net Due 30 Days 11/04/08 08/15/08 |
| TRIMBLE RANGER HANDHELD W/O<br>INTERNAL RECEIVER   |                       | 1   | 1 3013.350 15059.75               |
| Includes two days onsite training,<br>CONNECT s/w, and FREIGHT   |                       |   |                                   |
| NS - READCENTER ROUTE MANAGEMENT<br>SOFTWARE   |                       | 1   | 1 5290.000 5290.00                |
| READCENTER LICENSE - UP TO 25,000<br>SERVICES  |                       | 1   | 1 0.000 0.00                      |
| ** ABOVE ITEMS PRICED AS 1 UNIT  |                       |   |                                   |
| *****  |                       |   |                                   |
| <p>pd Arw<br/> REPO c/w<br/> 6766.52<br/> Due<br/> 13,533.32</p> <p>s/o on 13,533.32<br/> 6,766.52<br/> *Entered</p> <p>Attention<br/> Ed D.</p> <p>OK<br/> S&amp;F</p>  |                       |   |                                   |
| Please visit us at <a href="http://www.nuall.com">www.nuall.com</a>  |                       |   |                                   |
| Invoice is due by 12/04/08.  |                       | Subtotal 20299.99<br>S&H CHGS 0.00<br>Sales Tax 0.00<br>Amount Due 20299.99 |                                   |
| <small>         Terms: The above price applies when the order is paid in full. Payment required within 30 days of invoice. Late payment charges will be assessed at the rate of 1.5% per month.       </small> |                       |   |                                   |



## **EXHIBIT 5**

Exhibit 5

ARIZONA WATER WORKS SUPPLY

P.O. BOX 219

TEMPE, AZ 85280

PH: 480-966-5804 --- FAX: 480-967-7857

INVOICE

| DATE      | INVOICE # |
|-----------|-----------|
| 7/10/2007 | 108115    |

**PAID**  
08/06/2007

| BILL TO  | SHIP TO |
|--|---------|
| CORDES LAKES WATER CO.<br>P. O. BOX 219<br>TEMPE, AZ 85280 |         |

| P.O.# | TERMS       | DATE ORDERED | SHIP VIA | F.O.B. | DEL. TICKET # |
|-------|-------------|--------------|----------|--------|---------------|
| DICKY | NET 30 DAYS | 2/28/2007    | PICK UP  | TEMPE  | 37984         |

| QTY ORD                    | QTY SHIP | BK ORD | PART NO   | DESCRIPTION                                      | UNIT COST | AMOUNT     |
|----------------------------|----------|--------|-----------|--|-----------|------------|
| 2                          | 2        |        | MJCAP.06T | 6-IN MJ CAP (2" TAP)                             | 28.40     | 56.80      |
| 2                          | 2        |        | MJCAP.04T | 4 X 2 MJ TAPPED CAP                              | 21.60     | 43.20      |
| 2                          | 2        |        | GN20.240  | 2 X 24 GALV NIPPLE                               | 11.74     | 23.48      |
| 2                          | 2        |        | GN20.300  | 2 X 30-IN GALV NIP                               | 36.00     | 72.00      |
| 4                          | 4        |        | 106.020   | 2-IN GALV 90                                     | 3.84      | 15.36      |
| 4                          | 4        |        | 129.020   | 2-IN GALV COUP                                   | 3.10      | 12.40      |
| 4                          | 4        |        | BGV.020   | 2-IN BRASS GATE VALVE                            | 19.00     | 76.00      |
| 10                         | 10       |        | F1109.4   | 1 IN CORP STOP IPT X CTS PJ                      | 27.77     | 277.70     |
| 10                         | 10       |        | BGV.007   | 3/4 IN BRASS GATE VALVE                          | 3.97      | 39.70      |
| 12                         | 12       |        | KV43.342W | ANGLE METER STOP 1-IN CTS PJ X<br>3/4 METER COUP | 24.14     | 289.68     |
| 10                         | 10       |        | HS38.323  | 3/4 CHECK VALVE W/METER CPLG                     | 19.35     | 193.50     |
| 2                          | 2        |        | FRANK1106 | 6-IN MJ TRANSITION KIT                           | 13.80     | 27.60      |
| 2                          | 2        |        | FRANK1104 | 4-IN MJ TRANSITION KIT                           | 10.40     | 20.80      |
|                            |          |        |           | SALES TAX  |           | 80.99      |
| Meter + Services<br>Repair |          |        |           |  | \$ 865    | \$ 364     |
| Total                      |          |        |           |  |           | \$1,229.21 |

Conditions of Sale: Claims for shortage must be made within five days of receipt of shipment. Deliveries are contingent upon timely payment and no claims beyond our control. We accept no liability for loss of or damage to goods, but we will not be responsible for loss of, or damage to, equipment or other consequential damages. Our responsibility for loss or damage ceases when we are given delivery receipt of goods receipt without exception. The goods will be returned and any costs incurred. 25% is charged for handling returned goods. Seller reserves title of these goods until paid for in full. INTEREST: 1% PER MONTH FOR 180 DAYS ANNUAL ON ALL UNPAID BALANCES. In the event that seller must resort to legal process to recover payments on goods delivered hereunder, purchaser agrees to pay seller's LEGAL EXPENSES, including reasonable ATTORNEY'S FEES.

# Desert Mountain Analytical Services PLLC

May 22, 2013

EXHIBIT

A-3  
STIPULATED

## PURPOSE

This letter is to confirm the understanding of the terms and objectives of the engagement between Cordes Lakes Water Company ("Cordes" or "Company"), and Desert Mountain Analytical Services, PLLC ("DMAS"); as well as the nature and limitations of the services that DMAS will provide.


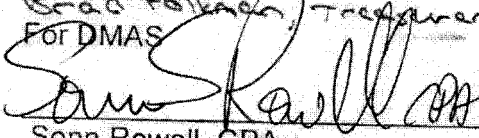
## SERVICES PROVIDED

Set up the books and records on an accrual basis so that they accurately reflect regulatory/NARUC guidelines. On an ongoing basis, DMAS will evaluate, as the Company sees fit, those books and records to determine if transactions are being recorded properly for regulatory purposes.

## FEES AND BILLING

DMAS services are retained to provide regular review of the books and records as well as completion of annual regulatory reports based upon those books and records. The rate for these services will be \$100 per hour, and the estimate of time required annually would be approximately 15 hours per quarter as well as the cost to file the annual reports.

For Cordes Lakes:

 Date 5/28/13  
Brad Falkner, Treasurer  
For DMAS  
 Date 6/11/13  
Sonni Rowell, CPA

PO Box 51628 Ahwatukee, AZ 85076-1628  
Phone & Fax - 480.961.5484  
Email: sonncpa@cox.net

**Schedule A Revised For Hearing**  
**Computation of Increase in**  
**Revenue Requirement**

| <u>Line</u> |  | <u>Original Cost</u> | <u>RCND</u> |
|-------------|--|----------------------|-------------|
| 1           | Adjusted Rate Base                             | \$ 222,825           | \$ 222,825  |
| 2           | Adjusted Operating Income                      | \$ (9,416)           | \$ (9,416)  |
| 3           | Current Rate of Return                         | -4.23%               | -4.23%      |
| 4           | Required Operating Income                      | \$ 23,508            | \$ 23,508   |
| 5           | Required Rate of Return                        | 10.55%               | 10.55%      |
| 6           | Operating Income Deficiency (4 - 2)            | \$ 32,924            | \$ 32,924   |
| 7           | Gross Revenue Conversion Factor                | 1.297                | 1.297       |
| 8           | Increase in Gross Revenue Requirements (6 x 7) | \$ 42,687            | \$ 42,687   |

|    | <b>Customer<br/>Classification</b> | <b>Adjusted<br/>Revenue at<br/>Present Rates</b> | <b>Revenue at<br/>Proposed<br/>Rates</b> | <b>Projected<br/>Revenue<br/>Increase Due<br/>to Rates</b> | <b>% Dollar<br/>Increase</b> |
|----|------------------------------------|--|--|--|------------------------------|
| 9  | 3/4" Meter Residential             | \$ 405,243                                       | \$ 446,879                               | \$ 41,636  | 10.27%                       |
| 10 | 1" Meter Commercial                | 2,400  | 2,679                                    | 279  | 11.63%                       |
| 11 | 2" Meter Commercial                | 5,463  | 5,849                                    | 386  | 7.07%                        |
| 12 | Unmetered Revenue                  | 8,090  | 8,090                                    | -  | 0.00%                        |
| 13 | <b>Total</b>                       | <b>\$ 420,536</b>                                | <b>\$ 463,496</b>                        | <b>\$ 42,960</b>   | <b>10.22%</b>                |



CORDES LAKES WATER COMPANY  
Docket No. W-02060A-12-0356  
Test Year Ended December 31, 2011

**Schedule B Revised For Hearing**  
**Rate base**

| <b>Line</b> | <b>Description</b>                   | <b>Company as<br/>Filed</b> | <b>Staff as<br/>Adjusted</b> | <b>Company as<br/>Revised</b> |
|-------------|--------------------------------------|-----------------------------|------------------------------|-------------------------------|
| 1           | Gross Utility Plant in Service       | \$ 601,634                  | \$ 1,137,023                 | \$ 1,198,775                  |
| 2           | Less: Accumulated Depreciation       | (139,712)                   | (894,996)                    | (897,637)                     |
| 3           | Net Utility Plant in Service         | \$ 461,922                  | \$ 242,027                   | \$ 301,139                    |
| 4           | <b>Less:</b>                         |                             |                              |                               |
| 5           | Meter Advances                       | \$ 21,110                   | \$ 21,110                    | \$ 21,110                     |
| 6           | Contributions in Aid of Construction | -                           | \$ 76,247                    | \$ 92,754                     |
| 7           | Customer Deposits                    | 18,170                      | 18,170                       | 18,170                        |
| 8           | <b>Add:</b>                          |                             |                              |                               |
| 9           | Amortization of Contributions        | \$ -                        | \$ -                         | \$ 53,720                     |
| 10          | Deferred Tax Assets                  | \$ -                        | \$ -                         | \$ -                          |
| 11          | Allowance for Working Capital        | 74,147                      | -                            | -                             |
| 12          | <b>Total Rate Base</b>               | <b>\$ 496,789</b>           | <b>\$ 126,500</b>            | <b>\$ 222,825</b>             |

SUMMARY OF ORIGINAL COST RATE BASE ADJUSTMENTS

| LINE NO.          | ACCT. NO. | DESCRIPTION                                 | (B) - (G) Staff Adjustments* |                 |                 |                              |                 |                          |                                |                  |  |          |           |         | COMPANY ADJUSTED |
|-------------------|-----------|---|------------------------------|-----------------|-----------------|------------------------------|-----------------|--------------------------|--------------------------------|------------------|--|----------|-----------|---------|------------------|
|                   |           |   | [A]<br>COMPANY AS REVISED    | [B]<br>ADJ. #1  |                 | [C]<br>Used & Useful ADJ. #2 |                 | [E]<br>Acc. Depr ADJ. #4 | [G]<br>Working Capital ADJ. #7 |                  | [F]<br>Post Test Year ADJ. #7 Ref. Sch B-2 F |          |           |         |                  |
|                   |           |   |                              | Ref. Sch. MUR-5 | Ref. Sch. MUR-6 | Ref. Sch. MUR-6              | Ref. Sch. MUR-6 |                          | Ref. Sch. MUR-10               | Ref. Sch. MUR-10 |  |          |           |         |                  |
| PLANT IN SERVICE. |           |   |                              |                 |                 |                              |                 |                          |                                |                  |  |          |           |         |                  |
| 1                 |           |   | \$                           | -               | \$              | -                            | \$              | -                        | \$                             | -                | \$   | -        | \$        | -       |                  |
| 2                 | 301       | Organization                                |                              |                 |                 |                              |                 |                          |                                |                  |  |          |           |         |                  |
| 3                 | 302       | Franchises                                  |                              |                 |                 |                              |                 |                          |                                |                  |  |          |           |         |                  |
| 4                 | 303       | Land and Land Rights                        | 85,599                       | (35,665)        |                 |                              |                 |                          |                                |                  |  |          | 49,934    |         |                  |
| 5                 | 304       | Structures & Improvements                   | 6,657                        |                 |                 |                              |                 |                          |                                |                  |  |          | 6,657     |         |                  |
| 6                 | 305       | Collecting & Impounding Reservoirs          |                              |                 |                 |                              |                 |                          |                                |                  |  |          |           |         |                  |
| 7                 | 306       | Lakes, Rivers, Other Intakes                |                              |                 |                 |                              |                 |                          |                                |                  |  |          |           |         |                  |
| 8                 | 307       | Wells and Springs                           | 167,348                      |                 |                 |                              |                 |                          |                                |                  |  |          |           |         |                  |
| 9                 | 308       | Infiltration Galleries and Tunnels          |                              |                 |                 |                              |                 |                          |                                |                  |  |          |           |         |                  |
| 10                | 309       | Supply Mains                                |                              |                 |                 |                              |                 |                          |                                |                  |  |          |           |         |                  |
| 11                | 310       | Power Generation Equipment                  |                              |                 |                 |                              |                 |                          |                                |                  |  |          |           |         |                  |
| 12                | 311       | Pumping Equipment                           | 26,588                       |                 |                 |                              |                 |                          |                                |                  |  |          |           |         |                  |
| 13                | 320       | Water Treatment Plant                       |                              |                 |                 |                              |                 |                          |                                |                  |  |          |           |         |                  |
| 14                | 330       | Distribution Reservoirs & Standpipes        | 141,632                      |                 |                 |                              |                 |                          |                                |                  |  |          |           |         |                  |
| 15                | 331       | Transmission & Distribution Mains           | 15,089                       |                 |                 |                              | 562,940         |                          |                                |                  |  |          |           |         |                  |
| 16                | 333       | Services                                    |                              |                 |                 |                              | 19,350          |                          |                                |                  |  |          |           |         |                  |
| 17                | 334       | Meters & Meter Installation                 | 70,842                       |                 |                 |                              |                 |                          |                                |                  |  |          |           |         |                  |
| 18                | 335       | Hydrants                                    |                              |                 |                 |                              |                 |                          |                                |                  |  |          |           |         |                  |
| 19                | 336       | Backflow Prevention Devices                 |                              |                 |                 |                              |                 |                          |                                |                  |  |          |           |         |                  |
| 20                | 339       | Other Plant & Misc. Equipment               | 59,315                       |                 |                 |                              |                 |                          |                                |                  |  |          |           |         |                  |
| 21                | 340       | Office Furniture & Equipment                | 7,027                        |                 |                 |                              |                 |                          |                                |                  |  |          |           |         |                  |
| 22                | 341       | Transportation Equipment                    | 71,461                       |                 |                 |                              |                 |                          |                                |                  |  |          |           |         |                  |
| 23                | 342       | Stores Equipment                            |                              |                 |                 |                              |                 |                          |                                |                  |  |          |           |         |                  |
| 24                | 343       | Tools, Ship & Garage Equipment              |                              |                 |                 |                              |                 |                          |                                |                  |  |          |           |         |                  |
| 25                | 344       | Laboratory Equipment                        |                              |                 |                 |                              |                 |                          |                                |                  |  |          |           |         |                  |
| 26                | 345       | Power Operated Equipment                    |                              |                 |                 |                              |                 |                          |                                |                  |  |          |           |         |                  |
| 27                | 346       | Communication Equipment                     |                              |                 |                 |                              |                 |                          |                                |                  |  |          |           |         |                  |
| 28                | 347       | Miscellaneous Equipment                     |                              |                 |                 |                              |                 |                          |                                |                  |  |          |           |         |                  |
| 29                | 348       | Other Tangible Plant                        |                              |                 |                 |                              | 582             |                          |                                |                  |  |          |           | 582     |                  |
| 30                |           | Total Plant in Service                      | 651,568                      | (35,665)        |                 | 582,872                      |                 |                          |                                |                  |  | 16,324   | 1,188,775 |         |                  |
| 31                |           |   |                              |                 |                 |                              |                 |                          |                                |                  |  |          |           |         |                  |
| 32                |           | Less: Accumulated Depreciation              |                              |                 |                 |                              |                 |                          |                                |                  |  |          |           |         |                  |
| 33                |           |   |                              |                 |                 |                              |                 |                          |                                |                  |  |          |           |         |                  |
| 34                |           | Net Plant in Service (L30 - L32)            | 139,712                      |                 |                 |                              | 755,284         |                          |                                |                  |  | 2,641    | 897,637   |         |                  |
| 35                |           |   | \$                           | 511,856         | \$              | (35,665)                     | \$              | 582,872                  | \$                             | (755,284)        | \$   | 13,683   | \$        | 301,139 |                  |
| 36                |           | LESS:                                       |                              |                 |                 |                              |                 |                          |                                |                  |  |          |           |         |                  |
| 37                |           | Contributions in Aid of Construction (CIAC) |                              |                 |                 |                              |                 |                          |                                |                  |  |          |           |         |                  |
| 38                |           | Less: Accumulated Amortization              |                              |                 |                 |                              |                 |                          |                                |                  |  |          |           |         |                  |
| 39                |           | Net CIAC (L23 - L26)                        | \$                           | 92,754          | \$              | -                            | \$              | -                        | \$                             | -                | \$   | -        | \$        | 92,754  |                  |
| 40                |           | Meter Advances                              | 53,720                       |                 |                 |                              |                 |                          |                                |                  |  |          |           | 53,720  |                  |
| 41                |           | Customer Deposits                           | 39,034                       |                 |                 |                              |                 |                          |                                |                  |  |          |           | 39,034  |                  |
| 42                |           | Deferred Tax Liabilities                    | 21,110                       |                 |                 |                              |                 |                          |                                |                  |  |          |           | 21,110  |                  |
| 43                |           |   | 18,170                       |                 |                 |                              |                 |                          |                                |                  |  |          |           | 18,170  |                  |
| 44                |           | ADD:  |                              |                 |                 |                              |                 |                          |                                |                  |  |          |           |         |                  |
| 45                |           | Unamortized Finance Charges                 |                              |                 |                 |                              |                 |                          |                                |                  |  |          |           |         |                  |
| 46                |           | Deferred Tax Assets                         |                              |                 |                 |                              |                 |                          |                                |                  |  |          |           |         |                  |
| 47                |           | Working Capital                             |                              |                 |                 |                              |                 |                          |                                |                  |  |          |           |         |                  |
| 48                |           |   | 74,147                       |                 |                 |                              |                 |                          |                                |                  |  | (74,147) |           |         |                  |
| 49                |           | Original Cost Rate Base                     | \$                           | 507,690         | \$              | (35,665)                     | \$              | 582,872                  | \$                             | (755,284)        | \$   | (74,147) | \$        | 222,825 |                  |

\*Staff Adjustments # 3 and 5 are not included as they are not accepted by the Company.

CORDES LAKES WATER COMPANY  
Docket No. W-02060A-12-0356  
Test Year Ended December 31, 2011

**Schedule B-2F**  
**Revised For Hearing**

**RATE BASE ADJUSTMENTS for Post Test Year Plant**

**Pumping Equipment**

Depreciation Rate                      12.5%

|              | Installed Plant<br>per year | Total Installed Plant           | Depreciation<br>(With half Year<br>Convention) |
|--------------|-----------------------------|---------------------------------|--|
| 2013         | 7,680                       | 16,324                          | 1,560  |
| 2012         | 8,644                       | 8,644                           | 1,080  |
| <b>Total</b> | <b>16,324</b>               | <b>Accumulated Depreciation</b> | <b>2,641</b>                                   |

| Line                       | Acct   | Description                                   | Company as<br>Filed | Staff as<br>Adjusted | Company<br>Adjustments | Company as<br>Revised | Proposed<br>Rate<br>Increase | Adjusted Test<br>Year With<br>Rate Increase |
|----------------------------|--------|---|---------------------|----------------------|------------------------|-----------------------|------------------------------|---|
| <b>Operating Revenues:</b> |        |   |                     |                      |                        |                       |                              |   |
| 1                          | 461    | Metered Water Revenue                         | \$ 403,353          | \$ 412,446           | \$ -                   | \$ 412,446            | \$ 42,687                    | \$ 455,133                                  |
| 2                          | 460    | Unmetered Water Revenue                       | -                   | -                    | -                      | -                     | -                            | -   |
| 3                          | 474    | Other Water Revenue                           | 640                 | 8,090                | -                      | 8,090                 | -                            | 8,090                                       |
| 4                          |        | Received For Contract Labor                   | 167,692             | -                    | -                      | -                     | -                            | -   |
| 5                          |        | <b>Total Operating Revenue</b>                | \$ 571,685          | \$ 420,536           | \$ -                   | \$ 420,536            | \$ 42,687                    | \$ 463,223                                  |
| <b>Operating Expenses:</b> |        |   |                     |                      |                        |                       |                              |   |
| 6                          |        | <b>Operating Expenses:</b>                    |                     |                      |                        |                       |                              |   |
| 7                          | 601    | Salaries and Wages                            | \$ 309,095          | \$ 141,403           | \$ -                   | \$ 141,403            | \$ -                         | \$ 141,403                                  |
|                            |        | Contract Labor                                | 10,312              | 10,312               | -                      | 10,312                | -                            | 10,312                                      |
| 8                          | 604    | Employee Pensions and Benefits                | 29,422              | 29,422               | -                      | 29,422                | -                            | 29,422                                      |
| 9                          | 610    | Purchased Water                               | -                   | -                    | -                      | -                     | -                            | -   |
| 10                         | 615    | Purchased Power                               | 31,723              | 31,723               | 917                    | 32,640                | -                            | 32,640                                      |
| 11                         | 618    | Chemicals                                     | -                   | -                    | -                      | -                     | -                            | -   |
| 12                         |        | Repairs and Maintenance                       | 12,650              | 13,662               | -                      | 13,662                | -                            | 13,662                                      |
| 13                         | 621    | Office Supplies and Expense                   | 14,491              | 14,491               | -                      | 14,491                | -                            | 14,491                                      |
| 14                         | 630    | Contractual Services - Billing                | 24,118              | 24,118               | -                      | 24,118                | -                            | 24,118                                      |
| 15                         |        | <b>Contractual Services - Accounting</b>      | 3,660               | 3,660                | 6,340                  | 10,000                | -                            | 10,000                                      |
| 16                         |        | Contractual Services - Computer Programmin    | 3,511               | 3,511                | -                      | 3,511                 | -                            | 3,511                                       |
| 17                         |        | Water Testing                                 | 1,806               | 5,858                | -                      | 5,858                 | -                            | 5,858                                       |
| 18                         | 640    | Rents   | 28,150              | 28,150               | -                      | 28,150                | -                            | 28,150                                      |
| 19                         | 650    | Transportation Expenses                       | 8,995               | 8,995                | -                      | 8,995                 | -                            | 8,995                                       |
| 20                         |        | Insurance - General Liability                 | 33,033              | 33,033               | -                      | 33,033                | -                            | 33,033                                      |
|                            |        | Insurance - Health and Life                   | 14,936              | 14,936               | -                      | 14,936                | -                            | 14,936                                      |
| 21                         | 665    | Rate Case Expense                             | -                   | -                    | -                      | 6,000                 | -                            | 6,000                                       |
|                            |        | Regulatory Expense                            | -                   | -                    | -                      | -                     | -                            | -   |
| 22                         |        | <b>670 Bad Debt Expense</b>                   | -                   | -                    | -                      | 2,528                 | 280                          | 2,809                                       |
| 23                         | 675    | Miscellaneous Expenses - Permits              | 2,000               | 2,000                | -                      | 2,000                 | -                            | 2,000                                       |
|                            |        | Miscellaneous Expenses - Travel               | -                   | -                    | -                      | -                     | -                            | -   |
|                            |        | Miscellaneous Expenses - Utilities Except Ele | 3,391               | 3,391                | -                      | 3,391                 | -                            | 3,391                                       |
|                            |        | Miscellaneous Expenses - Bank Charges         | 1,304               | 1,304                | -                      | 1,304                 | -                            | 1,304                                       |
|                            |        | Miscellaneous Expenses - Payroll Services     | 859                 | 859                  | -                      | 859                   | -                            | 859   |
| 24                         | 403    | <b>Depreciation Expenses</b>                  | 37,195              | 18,547               | 2,961                  | 21,508                | -                            | 21,508                                      |
|                            |        | <b>CIAC Amortization</b>                      | -                   | -                    | -                      | (4,185)               | -                            | (4,185)                                     |
| 25                         |        | Payroll Taxes                                 | 175                 | 175                  | -                      | 175                   | -                            | 175   |
| 26                         | 408.11 | Property Taxes                                | 18,187              | 23,429               | -                      | 23,428                | 795                          | 24,223                                      |
| 27                         | 409    | Income Taxes                                  | 45                  | 1,362                | -                      | 1,362                 | 5,659                        | 7,021                                       |
| 28                         | 427.4  | Interest Expense - Customer Deposits          | -                   | 1,050                | -                      | 1,050                 | -                            | 1,050                                       |
| 29                         |        | <b>Total Operating Expenses</b>               | \$ 589,058          | \$ 415,391           | \$ 10,218              | \$ 429,952            | \$ 6,734                     | \$ 436,686                                  |
| 28                         |        | <b>OPERATING INCOME/(LOSS)</b>                | \$ (17,373)         | \$ 5,145             | \$ -                   | \$ (9,416)            | \$ 35,953                    | \$ 26,537                                   |



| LINE NO.   | DESCRIPTION  | (A)        | (B)       | (C)         | (D)      |
|--|--|------------|-----------|-------------|----------|
| <u>Calculation of Gross Revenue Conversion Factor:</u> |  |            |           |             |          |
| 1  | Revenue  | 100.0000%  |           |             |          |
| 2  | Uncollectible Factor (Line 11)   | 0.4754%    |           |             |          |
| 3  | Revenues (L1 - L2)   | 99.5246%   |           |             |          |
| 4  | Combined Federal and State Tax Rate (Line 17) + Property Tax Factor (Line 22)                        | 22.3951%   |           |             |          |
| 5  | Subtotal (L3 - L4)   | 77.1295%   |           |             |          |
| 6  | Revenue Conversion Factor (L1 / L5)  | 1.296521   |           |             |          |
| <u>Calculation of Uncollectible Factor:</u>            |  |            |           |             |          |
| 7  | Unity  | 100.0000%  |           |             |          |
| 8  | Combined Federal and State Tax Rate (Line 17)  | 20.9228%   |           |             |          |
| 9  | One Minus Combined Income Tax Rate (L7 - L8)   | 79.0772%   |           |             |          |
| 10   | Uncollectible Rate   | 0.6012%    |           |             |          |
| 11   | Uncollectible Factor (L9 * L10)  | 0.4754%    |           |             |          |
| <u>Calculation of Effective Tax Rate:</u>              |  |            |           |             |          |
| 12   | Operating Income Before Taxes (Arizona Taxable Income)   | 100.0000%  |           |             |          |
| 13   | Arizona State Income Tax Rate  | 6.9680%    |           |             |          |
| 14   | Federal Taxable Income (L12 - L13)   | 93.0320%   |           |             |          |
| 15   | Applicable Federal Income Tax Rate (Line 53)   | 15.0000%   |           |             |          |
| 16   | Effective Federal Income Tax Rate (L14 * L15)  | 13.9548%   |           |             |          |
| 17   | Combined Federal and State Income Tax Rate (L13 + L16)   | 20.9228%   |           |             |          |
| <u>Calculation of Effective Property Tax Factor</u>    |  |            |           |             |          |
| 18   | Unity  | 100.0000%  |           |             |          |
| 19   | Combined Federal and State Tax Rate (Line 17)  | 20.9228%   |           |             |          |
| 20   | One Minus Combined Income Tax Rate (L18 - L19)   | 79.0772%   |           |             |          |
| 21   | Property Tax Factor (MJR-17, L24)  | 1.8618%    |           |             |          |
| 22   | Effective Property Tax Factor (L 21 * L 22)  | 1.4723%    |           |             |          |
| 23   | Combined Federal and State Tax and Property Tax Rate (L17+L22)                                       |            | 22.3951%  |             |          |
| 24   | Required Operating Income (Schedule MJR-1, Line 5)   | \$ 23,508  |           |             |          |
| 25   | Adjusted Test Year Operating Income (Loss) (Schedule MJR-11, Line 40)                                | \$ (9,416) |           |             |          |
| 26   | Required Increase in Operating Income (L24 - L25)  |            | \$ 32,924 |             |          |
| 27   | Income Taxes on Recommended Revenue (Col. (D), L52)  | \$ 7,021   |           |             |          |
| 28   | Income Taxes on Test Year Revenue (Col. (B), L52)  | \$ (1,685) |           |             |          |
| 29   | Required Increase in Revenue to Provide for Income Taxes (L27 - L28)                                 |            | \$ 8,706  |             |          |
| 30   | Recommended Revenue Requirement (Schedule MJR-1, Line 10)  | \$ 463,223 |           |             |          |
| 31   | Uncollectible Rate (Line 10)   | 0.6012%    |           |             |          |
| 32   | Uncollectible Expense on Recommended Revenue (L24 * L25)   | \$ 2,785   |           |             |          |
| 33   | Adjusted Test Year Uncollectible Expense   | \$ 2,528   |           |             |          |
| 34   | Required Increase in Revenue to Provide for Uncollectible Exp. (L32 - L33)                           |            | \$ 257    |             |          |
| 35   | Property Tax with Recommended Revenue (MJR-17, L19)  | \$ 24,223  |           |             |          |
| 36   | Property Tax on Test Year Revenue (MJR-17, L 16)   | \$ 23,428  |           |             |          |
| 37   | Increase in Property Tax Due to Increase in Revenue (MJR-17, L22)                                    |            | \$ 795    |             |          |
| 38   | Total Required Increase in Revenue (L26 + L29 + L34+L37)   |            | \$ 42,682 |             |          |
| <u>Calculation of Income Tax:</u>                      |  |            |           |             |          |
|  |  | Test Year  |           | Recommended |          |
| 39   | Revenue (Schedule MJR-11, Col.(C), Line 5 & Sch. MJR-1, Col. (B), Line 10)                           | \$ 420,536 | \$ 42,687 | \$ 463,223  |          |
| 40   | Operating Expenses Excluding Income Taxes  | \$ 428,590 |           | \$ 429,665  |          |
| 41   | Synchronized Interest (L47)  | \$ -       |           | \$ -        |          |
| 42   | Arizona Taxable Income (L36 - L317- L38)   | \$ (8,054) |           | \$ 33,558   |          |
| 43   | Arizona State Income Tax Rate  | 6.9680%    |           | 6.9680%     |          |
| 44   | Arizona Income Tax (L39 x L40)   |            | \$ (561)  |             | \$ 2,338 |
| 45   | Federal Taxable Income (L42- L43)  | \$ (7,493) |           | \$ 31,219   |          |
| 46   | Federal Tax on First Income Bracket (\$1 - \$50,000) @ 15%   | \$ (1,124) |           | \$ 4,683    |          |
| 47   | Federal Tax on Second Income Bracket (\$50,001 - \$75,000) @ 25%                                     | \$ -       |           | \$ -        |          |
| 48   | Federal Tax on Third Income Bracket (\$75,001 - \$100,000) @ 34%                                     | \$ -       |           | \$ -        |          |
| 49   | Federal Tax on Fourth Income Bracket (\$100,001 - \$335,000) @ 39%                                   | \$ -       |           | \$ -        |          |
| 50   | Federal Tax on Fifth Income Bracket (\$335,001 - \$10,000,000) @ 34%                                 | \$ -       |           | \$ -        |          |
| 51   | Total Federal Income Tax   | \$ (1,124) |           | \$ 4,683    |          |
| 52   | Combined Federal and State Income Tax (L44 + L51)  | \$ (1,685) |           | \$ 7,021    |          |
| 53   | Applicable Federal Income Tax Rate [Col. (D), L51 - Col. (B), L51] / [Col. (C), L45 - Col. (A), L45] |            |           |             | 15.0000% |
| <u>Calculation of Interest Synchronization:</u>        |  |            |           |             |          |
| 54   | Rate Base (Schedule MJR-3, Col. (C), Line 17)  | \$ 222,825 |           |             |          |
| 55   | Weighted Average Cost of Debt  | 0.00%      |           |             |          |
| 56   | Synchronized Interest (L54 X L56)  | \$ -       |           |             |          |

CORDES LAKES WATER COMPANY  
Docket No. W-02060A-12-0356  
Test Year Ended December 31, 2011

**Schedule C-4 Revised For Hearing**

**OPERATING INCOME ADJUSTMENT #5 - PROPERTY TAXES**

| LINE NO. | Property Tax Calculation  | COMPANY AS ADJUSTED | COMPANY RECOMMENDED |
|----------|---|---------------------|---------------------|
| 1        | Company Adjusted Test Year Revenues - 2011                                | \$ 420,536          | \$ 420,536          |
| 2        | Weight Factor   | 2                   | 2                   |
| 3        | Subtotal (Line 1 * Line 2)  | 841,072             | \$ 841,072          |
| 4        | Company Recommended Revenue, Per Schedule MJR-1                           | 420,536             | \$ 463,223          |
| 5        | Subtotal (Line 4 + Line 5)  | 1,261,608           | 1,304,295           |
| 6        | Number of Years   | 3                   | 3                   |
| 7        | Three Year Average (Line 5 / Line 6)                                      | 420,536             | 434,765             |
| 8        | Department of Revenue Multiplier  | 2                   | 2                   |
| 9        | Revenue Base Value (Line 7 * Line 8)                                      | 841,072             | 869,530             |
| 10       | Plus: 10% of CWIP -   | -                   | -                   |
| 11       | Less: Net Book Value of Licensed Vehicles                                 | 2,171               | 2,171               |
| 12       | Full Cash Value (Line 9 + Line 10 - Line 11)                              | 838,901             | \$ 867,359          |
| 13       | Assessment Ratio  | 20.0%               | 20.0%               |
| 14       | Assessment Value (Line 12 * Line 13)                                      | 167,780             | \$ 173,472          |
| 15       | Composite Property Tax Rate   | 13.9638%            | 13.9638%            |
| 16       | Company Test Year Adjusted Property Tax (Line 14 * Line 15)               | \$ 23,428           | \$ -                |
| 17       |   |                     |                     |
| 18       |   |                     |                     |
| 19       | Property Tax - Company Recommended Revenue (Line 14 * Line 15)            |                     | \$ 24,223           |
| 20       | Company Test Year Adjusted Property Tax Expense (Line 16)                 |                     | \$ 23,428           |
| 21       | Increase in Property Tax Expense Due to Increase in Revenue Requirement   |                     | \$ 795              |
| 22       | Increase to Property Tax Expense  |                     | \$ 795              |
| 23       | Increase in Revenue Requirement   |                     | 42,687              |
| 24       | Increase to Property Tax per Dollar Increase in Revenue (Line 22/Line 23) |                     | 1.861840%           |

CORDES LAKES WATER COMPANY

**Schedule C-5 Revised For Hearing**

Docket No. W-02060A-12-0356

Test Year Ended December 31, 2011

|                                     | <b>Rate Case Expense</b> |
|-------------------------------------|--------------------------|
| Expense                             | 18,000                   |
| <u>Ammortization Period (years)</u> | <u>3</u>                 |
|                                     | 6000                     |

**Schedule C-6 Depreciation Expense Adjustment  
Revised For Hearing**

| Line No.  | ACCT NO. | DESCRIPTION                          | Depreciable |           | Add Back                                   | Depreciable |        | Depreciation Rate | Depreciation Expense |
|---|----------|--------------------------------------|-------------|-----------|--|-------------|--------|-------------------|----------------------|
|   |          |                                      | Amount      | Per Staff | Amounts from Staff Rate base Adjustment #3 | Per Company |        |                   |                      |
| Plant In Service  |          |                                      |             |           |  |             |        |                   |                      |
| 1   | 301      | Organization                         | \$ -        | \$ -      | \$ -                                       | \$ -        | 0.00%  | \$ -              |                      |
| 2   | 302      | Franchises                           | -           | -         | -  | -           | 0.00%  | -                 |                      |
| 3   | 303      | Land and Land Rights                 | -           | -         | -  | -           | 0.00%  | -                 |                      |
| 4   | 304      | Structures & Improvements            | 6,657       | 4,400     | -  | 4,400       | 3.33%  | 147               |                      |
| 5   | 305      | Collecting & Impounding Reservoirs   | -           | -         | -  | -           | 2.50%  | -                 |                      |
| 6   | 306      | Lakes, Rivers, Other Intakes         | -           | -         | -  | -           | 2.50%  | -                 |                      |
| 7   | 307      | Wells and Springs                    | 167,348     | 151,979   | -  | 151,979     | 3.33%  | 5,061             |                      |
| 8   | 308      | Infiltration Galleries and Tunnels   | -           | -         | -  | -           | 6.67%  | -                 |                      |
| 9   | 309      | Supply Mains                         | -           | -         | -  | -           | 2.00%  | -                 |                      |
| 10  | 310      | Power Generation Equipment           | -           | -         | -  | -           | 5.00%  | -                 |                      |
| 11  | 311      | Pumping Equipment                    | 26,588      | 16,030    | -  | 16,030      | 12.50% | 2,004             |                      |
| 12  | 320      | Water Treatment Plant                | -           | -         | -  | -           | 3.33%  | -                 |                      |
| 13  | 330      | Distribution Reservoirs & Standpipes | 141,632     | 94,458    | -  | 94,458      | 2.22%  | 2,097             |                      |
| 14  | 331      | Transmission & Distribution Mains    | 581,937     | 19,442    | (3,898)                                    | 15,544      | 2.00%  | 311               |                      |
| 15  | 333      | Services                             | 19,350      | -         | -  | -           | 3.33%  | -                 |                      |
| 16  | 334      | Meters & Meter Installation          | 54,817      | 47,078    | 16,025                                     | 63,103      | 8.33%  | 5,256             |                      |
| 17  | 335      | Hydrants                             | -           | -         | -  | -           | 2.00%  | -                 |                      |
| 18  | 336      | Backflow Prevention Devices          | -           | -         | -  | -           | 6.67%  | -                 |                      |
| 19  | 339      | Other Plant & Misc. Equipment        | 60,550      | 60,550    | 1,235                                      | 61,785      | 6.67%  | 4,121             |                      |
| 20  | 340      | Office Furniture & Equipment         | 6,101       | 6,101     | 926  | 7,027       | 6.67%  | 469               |                      |
| 21  | 341      | Transportation Equipment             | 71,461      | 2,412     | -  | 2,412       | 20.00% | 482               |                      |
| 22  | 342      | Stores Equipment                     | -           | -         | -  | -           | 4.00%  | -                 |                      |
| 23  | 343      | Tools, Ship & Garage Equipment       | -           | -         | -  | -           | 5.00%  | -                 |                      |
| 24  | 344      | Laboratory Equipment                 | -           | -         | -  | -           | 10.00% | -                 |                      |
| 25  | 345      | Power Operated Equipment             | -           | -         | -  | -           | 5.00%  | -                 |                      |
| 26  | 346      | Communication Equipment              | -           | -         | -  | -           | 10.00% | -                 |                      |
| 27  | 347      | Miscellaneous Equipment              | 582         | -         | -  | -           | 10.00% | -                 |                      |
| 28  | 348      | Other Tangible Plant                 | -           | -         | -  | -           | 0.00%  | -                 |                      |
| Total Depreciation Expense                                |          |                                      |             |           |  |             |        | \$                | 19,948 a             |
| Staff Depreciation Expense                                |          |                                      |             |           |  |             |        | \$                | 18,547 b             |
| Adjustment for Reversal of Staff Rate base Adjustment #3  |          |                                      |             |           |  |             |        | \$                | 1,401 c=a-b          |
| Depreciation Expense Associated With Post Test Year Plant |          |                                      |             |           |  |             |        | \$                | 1,560 d              |
| TOTAL ADJUSTMENT  |          |                                      |             |           |  |             |        | \$                | 2,961 e=d+c          |

CORDES LAKES WATER COMPANY  
Docket No. W-02060A-12-0356  
Test Year Ended December 31, 2011

**Schedule C-7 Bad Debt**  
**Revised For Hearing**

**Bad Debt by Year**

|      |    |       |
|------|----|-------|
| 2007 | \$ | 43    |
| 2008 | \$ | 1,488 |
| 2009 | \$ | 4,079 |
| 2010 | \$ | 2,048 |
| 2011 | \$ | 4,049 |

**With High and Low Year Removed**

|      |    |       |
|------|----|-------|
| 2008 | \$ | 1,488 |
| 2010 | \$ | 2,048 |
| 2011 | \$ | 4,049 |

|         |    |       |
|---------|----|-------|
| Average | \$ | 2,528 |
|---------|----|-------|

|                      |  | Present Rates | -Proposed Rates- |           |
|----------------------|--|---------------|------------------|-----------|
| Monthly Usage Charge |  |               | Staff            | Company   |
| 5/8" x 3/4" Meter    |  | N/A           | N/A              |           |
| 3/4" Meter           |  | 11.00         | 11.50            | \$ 13.18  |
| 1" Meter             |  | 19.50         | 20.00            | \$ 22.77  |
| 1 1/2" Meter         |  | 39.00         | 39.00            | \$ 44.70  |
| 2" Meter             |  | 62.50         | 62.50            | \$ 74.89  |
| 3" Meter             |  | 125.00        | 125.00           | \$ 143.26 |
| 4" Meter             |  | 220.00        | 192.50           | \$ 220.62 |
| 6" Meter             |  | 390.00        | 385.00           | \$ 441.24 |

Commodity Rate Charge

|                             |                           |      |      |      |
|-----------------------------|---------------------------|------|------|------|
| 3/4" Meter                  |                           |      |      |      |
| Tier 1                      | From 0 to 3,000 gallons   | 2.80 | 2.80 | 2.81 |
| Tier 2                      | From 3,001 to 8,000 galls | 4.30 | 4.20 | 4.50 |
| Tier 3                      | Over 8,000 gallons        | 5.00 | 6.45 | 5.40 |
| 1" Meter                    |                           |      |      |      |
| Tier 1                      | From 0 to 18,000 gallons  | 4.30 | 4.20 | 4.50 |
| Tier 2                      | Over 18,000 gallons       | 5.00 | 6.45 | 5.40 |
| 1 1/2" Meter                |                           |      |      |      |
| Tier 1                      | From 0 to 43,500 gallons  | 4.30 | 4.20 | 4.50 |
| Tier 2                      | Over 43,500 gallons       | 5.00 | 6.45 | 5.40 |
| 2" Meter                    |                           |      |      |      |
| Tier 1                      | From 0 to 75,000 gallons  | 4.30 | 4.20 | 4.50 |
| Tier 2                      | Over 75,000 gallons       | 5.00 | 6.45 | 5.40 |
| 3" Meter                    |                           |      |      |      |
| Tier 1                      | From 0 to 160,000 gallons | 4.30 | 4.20 | 4.50 |
| Tier 2                      | Over 160,000 gallons      | 5.00 | 6.45 | 5.40 |
| 4" Meter                    |                           |      |      |      |
| Tier 1                      | From 0 to 290,000 gallons | 4.30 | 4.20 | 4.50 |
| Tier 2                      | Over 290,000 gallons      | 5.00 | 6.45 | 5.40 |
| 6" Meter                    |                           |      |      |      |
| Tier 1                      | From 0 to 530,000 gallons | 4.30 | 4.20 | 4.50 |
| Tier 2                      | Over 530,000 gallons      | 5.00 | 6.45 | 5.40 |
| Gallons Included in Minimum |                           | 0    | 0    | 0    |

Present Rates Company and Staff

| Service Line and Meter Installation Charges | Service Meter |          |              |          |
|---|---------------|----------|--------------|----------|
|   | Total         | Line     | Installation | Total    |
| 5/8" x 3/4" Meter                           | N/T           | N/T      | N/T          | N/T      |
| 3/4" Meter                                  | 520.00        | 426.00   | 198.00       | 624.00   |
| 1" Meter                                    | 610.00        | 486.00   | 246.00       | 732.00   |
| 1 1/2" Meter                                | 855.00        | 528.00   | 498.00       | 1,026.00 |
| 2" Meter                                    | 1,515.00      | 720.00   | 1,098.00     | 1,818.00 |
| 2" Meter                                    | 2,195.00      | 930.00   | 1,764.00     | 2,694.00 |
| 3" Meter                                    | 2,195.00      | 930.00   | 1,764.00     | 2,694.00 |
| 3" Meter                                    | 6,115.00      | 1,332.00 | 2,700.00     | 4,032.00 |
| 4" Meter                                    | 3,360.00      | 1,332.00 | 2,700.00     | 4,032.00 |
| 4" Meter                                    | 3,020.00      | 1,050.00 | 1,970.00     | 3,020.00 |
| 6" Meter                                    | 6,115.00      | 2,000.00 | 5,350.00     | 7,350.00 |
| 6" Meter (Compound)                         | 5,960.00      | 1,250.00 | 4,710.00     | 5,960.00 |
| 8" Meter (Turbine)                          | Cost          | Cost     | Cost         | Cost     |
| 10" Meter (Turbine)                         | Cost          | Cost     | Cost         | Cost     |
| 12" Meter (Turbine)                         | Cost          | Cost     | Cost         | Cost     |

Service Charges

| Present Rates Company and Staff       |                 |
|---------------------------------------|-----------------|
| Establishment                         | \$25.00 \$30.00 |
| Establishment (After Hours)           | \$35.00 NT      |
| Reconnection (Delinquent)             | \$15.00 \$20.00 |
| Reconnection (Delinquent) After Hours | \$25.00 NT      |
| NSF Check                             | \$12.50 \$15.00 |
| Meter Re-Read (If Correct)            | \$10.00 \$12.00 |
| Meter Test (If Correct)               | \$25.00 \$30.00 |
| Deferred Payment (per Month)          | 1.5% ***        |

\* Per Commission Rules (R14-2-403.B)

\*\* Months off system times the minimum (R14-2-403.D)

\*\*\* 1.5% on the unpaid balance per month

\*\*\*\* 2.00% of Monthly Minimum for a Comparable Sized Meter Connection, but no less than \$10.00 per month. The Service Charge for Fire Sprinkler is only applicable for service lines separate and distinct from the primary water service line.

CORDES LAKES WATER COMPANY  
Docket No. W-02060A-12-0356  
Test Year Ended December 31, 2011

**Schedule H-4**  
**Revised For Hearing**

| Median Customer Usage<br>3088 Gallons |    |       |             |            |
|---------------------------------------|----|-------|-------------|------------|
|                                       |    |       | \$ Increase | % Increase |
| Bill at present rates                 | \$ | 19.78 |             |            |
| Bill at Staff's Proposed Rate         | \$ | 20.27 | \$ 0.49     | 2.48%      |
| Bill at Company's Proposed Rates      | \$ | 22.01 | \$ 2.23     | 11.26%     |

| Average Customer Usage<br>4169 Gallons |    |       |             |            |
|--|----|-------|-------------|------------|
|  |    |       | \$ Increase | % Increase |
| Bill at present rates                  | \$ | 24.43 |             |            |
| Bill at Staff's Proposed Rate          | \$ | 24.81 | \$ 0.38     | 1.57%      |
| Bill at Company's Proposed Rates       | \$ | 26.87 | \$ 2.44     | 10.00%     |

**CORDES LAKES WATER COMPANY**

Docket No. W-02060A-12-0356

Test Year Ended December 31, 2011

Explanation:

Schedule showing elements of capital structure  
and the related cost.

**Schedule D-1**

**Title: Summary Cost of Capital**

Required for: All Utilities

☒

Class A

☐

Class B

☐

Class C

☐

Class D

☐

Speci Reqmt

☐

| Line | Invested Capital   | %       | Cost          | Composite     |
|------|--------------------|---------|---------------|---------------|
|      |                    |         | Rate (e)      | Cost %        |
| 1    | Long-Term Debt (a) | 0.00%   | NA            | 0.00%         |
| 2    | Common Equity (c)  | 100.00% | <u>10.55%</u> | 10.55%        |
| 3    | Totals             | 100.00% |               | <u>10.55%</u> |



| PARCEL #  | AREA CODE | PRIMARY TAX RATE PER \$100 ASSESSED VALUE | SECONDARY TAX RATE PER \$100 ASSESSED VALUE | IRRIGATION DISTRICT \$ PER ACRE | 2012 TAX SUMMARY            |            |
|---|-----------|---|---|---------------------------------|-----------------------------|------------|
| 943-84-390 3  | 4390      | 8.0531                                    | 4.4474                                      |                                 | PRIMARY PROPERTY TAX        | 13,690.28  |
| <b>ASSESSMENT</b><br>LIMITED LAND, BLDGS, ETC<br>LIMITED PERSONAL PROPERTY<br>LIMITED TOTALS<br>FULL CASH LAND<br>FULL CASH BUILDINGS, ETC<br>FULL CASH PERSONAL PROPERTY<br>FULL CASH TOTALS |           |   |   |                                 | LESS STATE AID TO EDUCATION | 0.00       |
|   |           |   |   |                                 | NET PRIMARY PROPERTY TAX    | 13,690.28  |
|   |           |   |   |                                 | SECONDARY PROPERTY TAX      | 7,078.42   |
|   |           |   |   |                                 | SPECIAL DISTRICT TAX        | 0.00       |
|   |           |   |   |                                 | TOTAL TAX DUE FOR 2012      | 20,768.70  |
|   |           |   |   |                                 | 2011 TAXES                  | 2012 TAXES |

00000000  
SITUS ADDRESS:  
LEGAL DESCRIPTION:  
TOTAL VALUE OF OPERATING PROPERTY 500-26-047  
3,000 500-28-128 3,500 500-28-254  
3,500 500-29-408 5,000 500-32-485  
4,000

JURISDICTION  
02000 Yavapai County  
02001 School Equalization  
07043 Mayer Unified SD #43  
08150 Yav. Community College  
11215 Mayer Fire Dist  
11900 Fire Dist Assist Fund  
14900 Yav. Co. Library Dist  
15001 Yav. Flood Control Dist  
30001 Mountain Institute ED

2,288.80  
681.44  
6,152.16  
2,587.98  
5,200.00  
148.50  
232.94  
15.70  
80.00

This is the only notice you will receive.

Ross D. Jacobs  
Yavapai County Treasurer  
1015 Fair Street  
Prescott AZ 86305-1807

**THIS IS A  
CALENDAR YEAR  
TAX NOTICE**

TOTALS 17,387.52 20,768.70

**PAYMENT INSTRUCTIONS**

To pay the 1st half, send the 1st half coupon with your payment postmarked no later than Nov. 1, 2012. To pay the 2nd half installment, send the 2nd half coupon with your payment postmarked no later than May 1, 2013. To pay taxes for the full year, send the 1st half coupon with your payment postmarked no later than Dec. 31, 2012 and no interest will be charged for current year.

Make your check payable to and mail to:

Ross D. Jacobs  
Yavapai County Treasurer  
1015 Fair Street  
Prescott AZ 86305-1807

943-84-390 3

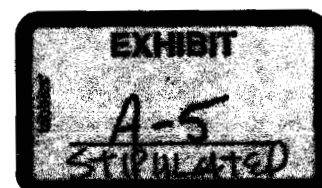
0069800 01 AT 0.371 \*\*AUTO T7 0 0792 85280-021919

PAGE 0001 OF 0001 00062728 F

CORDES LAKE WATER COMPANY  
NEIL FOLKMAN  
P O BOX 219  
TEMPE AZ 85280-0219

PLEASE INCLUDE YOUR  
PARCEL NUMBER  
ON YOUR CHECK

THERE WILL BE A CHARGE FOR EACH RETURNED CHECK  
AND YOUR TAXES WILL REVERT TO AN UNPAID STATUS.



YAVAPAI COUNTY  
564 · TAXES - PROPERTY

943-84-390

10/30/2012

10,384.35

CHECK-NATIONAL

10,384.35


167

SFMS5001NL-1

REORDER FROM YOUR LOCAL SAFEGUARD DISTRIBUTOR, IF UNKNOWN, CALL 800-523-2422

HRKJJ90010000

Y05SF001517

 SAFEGUARD LITHO USA SFSL1M CR7508111M

CORDES LAKES WATER CO.

6596

4/25/2013

10,384.35

YAVAPAI COUNTY  
564 · TAXES - PROPERTY

943-84-3903

CHECK-NATIONAL

permits

10,384.35


246

SFMS5001NL-1

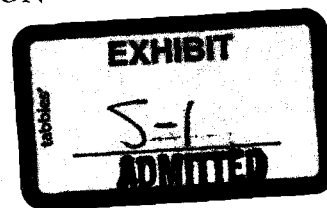
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BEFORE THE ARIZONA CORPORATION COMMISSION



BOB STUMP

Chairman

GARY PIERCE

Commissioner

BRENDA BURNS

Commissioner

BOB BURNS

Commissioner

SUSAN BITTER SMITH

Commissioner

IN THE MATTER OF THE APPLICATION OF )  
CORDES LAKES WATER COMPANY FOR )  
AN INCREASE IN ITS RATES )  
\_\_\_\_\_ )

DOCKET NO. W-02060A-12-0356

DIRECT TESTIMONY

OF

DEL SMITH

UTILITIES ENGINEER SUPERVISOR

ARIZONA CORPORATION COMMISSION

UTILITIES DIVISION

FEBRUARY 8, 2013

**EXECUTIVE SUMMARY  
CORDES LAKES WATER COMPANY  
DOCKET NO. W-02060A-12-0356**

**CONCLUSIONS**

1. According to the Arizona Department of Environmental Quality ("ADEQ") the Cordes Lakes Water Company ("Cordes Lakes" or "Company") water system has no major deficiencies and is delivering water that meets water quality standards required by 40 CFR 141/Arizona Administrative Code, Title 18, Chapter 4.
2. The Company reported 87,375,000 gallons pumped and 65,097,000 gallons sold during the 2011 test year, resulting in a water loss of 25.5 percent. The Company's non-account water has steadily increased since 2006. The Company proposes to spend \$30,000 in 2013 and another \$30,000 in 2014 on leak repairs and \$10,000 each year for three years beginning in 2012 on meter repair and replacement. These proposed expenditure levels are a good starting point. However, the Company should monitor its water loss closely and adjust its plan if needed. This does not imply a specific treatment of rate base for rate making purposes in the Company's future rate filings.
3. The Arizona Corporation Commission ("ACC" or "Commission") Utilities Division Staff ("Utilities Staff" or "Staff") concludes that the Company's current well production and storage capacities are adequate to serve the present customer base and reasonable growth.
4. Cordes Lakes is not within an Active Management Area ("AMA"), and consequently is not subject to Arizona Department of Water Resources ("ADWR") AMA reporting and conservation requirements. ADWR has determined that the Company is currently compliant with departmental requirements governing water providers and/or community water systems.
5. A check with the Commission Utilities Division Compliance Section showed that there are currently no delinquent compliance items for Cordes Lakes.
6. The Company has curtailment plan and backflow prevention tariffs on file with the Commission.

**RECOMMENDATIONS**

1. Staff recommends that Cordes Lakes closely monitor its water system to ensure that pump over-cycling does not occur due to inadequate pressure tank capacity. Staff further recommends that prior to filing its next rate case the Company review the sizing of its pressure tanks and file, with the Commission's Docket Control as a compliance item in this

docket, the results of its review including actions the Company plans to take to prevent pump over-cycling.

2. Staff recommends an annual water testing expense of \$5,858 be used for purposes of this proceeding. This expense amount includes the ADEQ Monitoring Assistance Program fee.
3. In its prior rate case, the Company adopted Staff's typical and customary water depreciation rates. These rates are presented in Table C and it is recommended that the Company continue to use these depreciation rates by individual National Association of Regulatory Utility Commissioners category.
4. Staff recommends that the meter and service line charges listed under "Company Proposed and Staff's Recommendation" in Table D be adopted.
5. Staff recommends that the Cordes Lakes file with Docket Control, as a compliance item in this docket and within 45 days of the effective date of a decision in this proceeding, at least five BMPs in the form of tariffs that substantially conform to the templates created by Staff for Commission's review and consideration. The templates created by Staff are available on the Commission's website at <http://www.azcc.gov/Divisions/Utilities/forms.asp>. Staff further recommends that a maximum of two BMPs may come from the "Public Awareness/Public Relations" or "Education and Training" categories.
6. Cordes Lakes is currently providing service to customers outside its Certificate of Convenience and Necessity ("CC&N") in the Southwest Quarter of the Northwest Quarter of Section 24, Township 11 North, Range 2 East of the Gila and Salt River Base and Meridian, Yavapai County, Arizona. Staff recommends that the Company file an application to extend its CC&N to include this area within 90 days of the effective date of a decision in this proceeding.

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1 **INTRODUCTION**

2 **Q. Please state your name and business address.**

3 A. My name is Del Smith. My business address is 1200 West Washington Street, Phoenix,  
4 Arizona 85007.

5  
6 **Q. By whom are you employed and what is your position?**

7 A. I am employed by the Arizona Corporation Commission (the "Commission") in its  
8 Utilities Division. My title is Engineering Supervisor.

9  
10 **Q. Briefly describe your responsibilities as Engineering Supervisor.**

11 A. In my capacity as Engineering Supervisor, I provide recommendations and technical  
12 assistance to the Commissioners and to other staff members on matters that come before  
13 the Commission involving utilities such as the Cordes Lakes Water Company ("Cordes  
14 Lakes" or "Company") and other water service providers operating in the State. In  
15 addition, I am responsible for supervising other Staff members who work in the  
16 Engineering Section of the Utilities Division. Those Staff members include water and  
17 wastewater engineers, electrical engineers and an information technology specialist.

18  
19 **Q. Please describe your educational background and professional experience.**

20 A. I graduated from Arizona State University in 1976 with a Bachelor of Science Degree in  
21 Engineering Technology. Prior to joining the Commission in 1985 as a Utilities  
22 Consultant, I had worked for a telephone operating company for twelve years where I held  
23 positions in network planning and design. Since joining the Commission, I have worked  
24 on hundreds of issues that have come before this Commission.

**PURPOSE OF TESTIMONY**

**Q. Were you assigned to provide the Utilities Division Staff's ("Utilities Staff" or "Staff") engineering analysis and recommendation for Cordes Lakes in this proceeding?**

**A. Yes. I reviewed the Company's application and responses to data requests, and I visited the water system on November 14, 2012. This testimony and its attachment present Staff's engineering evaluation.**

**ENGINEERING REPORT**

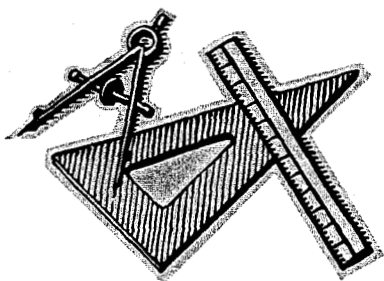
**Q. Please describe the attached Engineering Report, Exhibit DS.**

**A. Exhibit DS presents details and Staff's analysis and findings, and is attached to this direct testimony. Exhibit DS contains the following major topics: (1) a description and analysis of the water system, (2) water use, (3) growth, (4) compliance with the rules of the Arizona Department of Environmental Quality, Arizona Department of Water Resources, and the Commission, and (5) depreciation rates.**  
**Staff's conclusions and recommendations from the Engineering Report are contained in the "Executive Summary".**

**Q. Does this conclude your direct testimony?**

**A. Yes, it does.**





## ENGINEERING REPORT FOR CORDES LAKES WATER COMPANY

DOCKET NO. W-02060A-12-0356

FEBRUARY 8, 2013

### CONCLUSIONS

1. According to the Arizona Department of Environmental Quality ("ADEQ") the Cordes Lakes Water Company ("Cordes Lakes" or "Company") water system has no major deficiencies and is delivering water that meets water quality standards required by 40 CFR 141/Arizona Administrative Code, Title 18, Chapter 4.
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3. The Arizona Corporation Commission ("ACC" or "Commission") Utilities Division Staff ("Utilities Staff" or "Staff") concludes that the Company's current well production and storage capacities are adequate to serve the present customer base and reasonable growth.
4. Cordes Lakes is not within an Active Management Area ("AMA"), and consequently is not subject to Arizona Department of Water Resources ("ADWR") AMA reporting and conservation requirements. ADWR has determined that the Company is currently compliant with departmental requirements governing water providers and/or community water systems.
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6. The Company has curtailment plan and backflow prevention tariffs on file with the Commission.

**RECOMMENDATIONS**

1. Staff recommends that Cordes Lakes closely monitor its water system to ensure that pump over-cycling does not occur due to inadequate pressure tank capacity. Staff further recommends that prior to filing its next rate case the Company review the sizing of its pressure tanks and file, with the Commission's Docket Control as a compliance item in this docket, the results of its review including actions the Company plans to take to prevent pump over-cycling.
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## A. INTRODUCTION AND LOCATION OF COMPANY

On August 6, 2012, Cordes Lakes Water Company ("Cordes Lakes" or "Company") filed a rate application with the Arizona Corporation Commission ("ACC" or "Commission"). The Company's existing rates were ordered in Commission Decision No. 70170 issued February 27, 2008. The Cordes Lakes water system serves the Cordes Lakes subdivision east of Interstate Highway 17 in Cordes Junction. Figure 1 shows the location of the Company within Yavapai County and Figure 2 delineates the approximate two square miles of certificated service area. The ACC Utilities Division Staff ("Utilities Staff" or "Staff") engineering review and analysis of the pending application is presented in this report.

Figure1

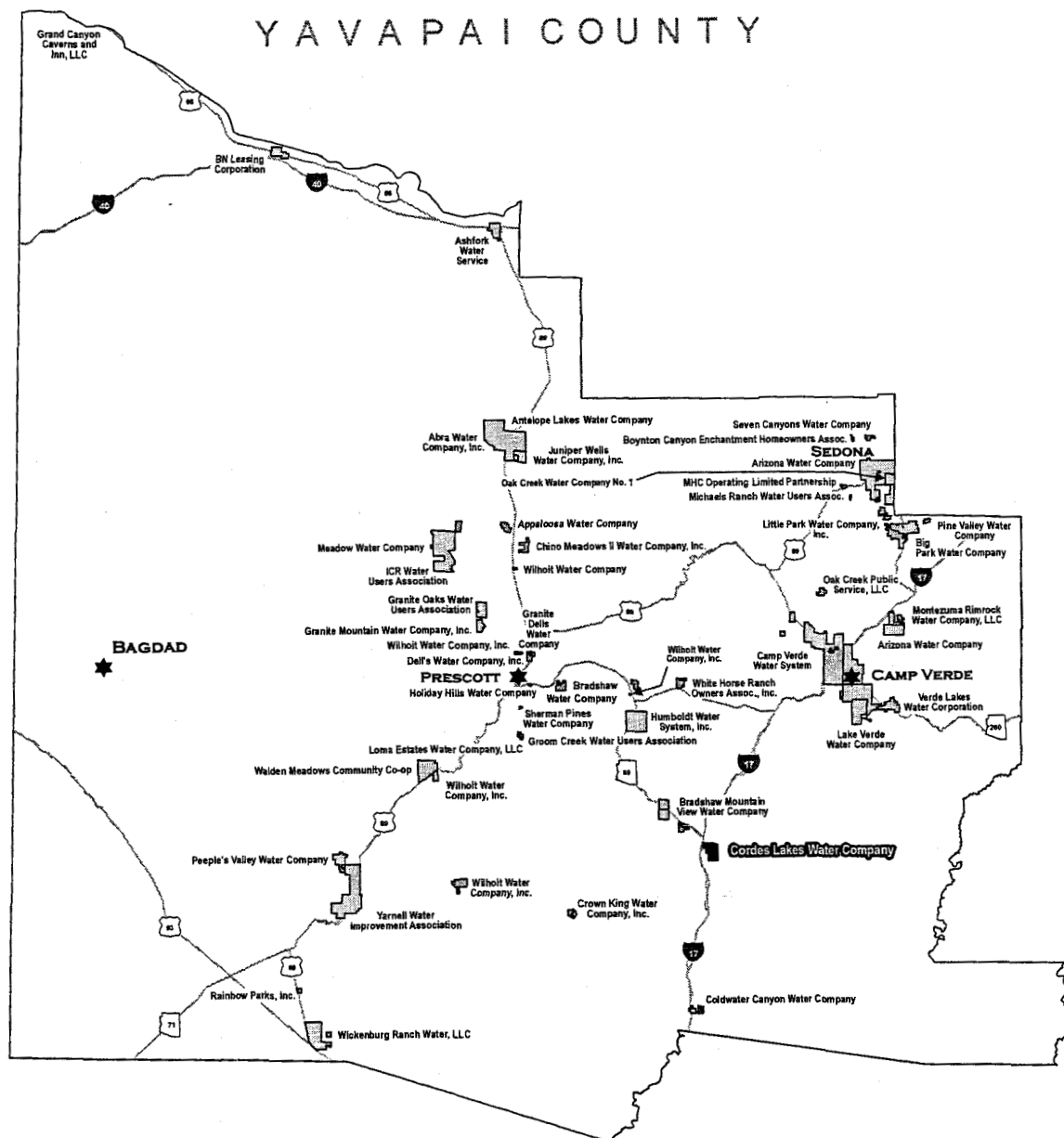
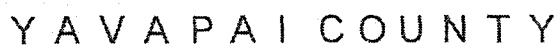


Figure2



**B. DESCRIPTION OF THE WATER SYSTEMS**

The plant facilities were visited on November 14, 2012, by Staff members Mary Rimback and Del Smith. Staff was accompanied by Neil and Brad Folkman, owners of the Company and Richard Ross the water system's operator. The Cordes Lakes water system has four active pumping sites consisting of four active wells and five active storage tanks. The system also has two active pumping stations and a distribution system serving over 1,300 customers. Figure 3 provides a process schematic for the water system. Table A below shows the plant facilities summary.<sup>1</sup>

Table A. Plant Facilities Summary

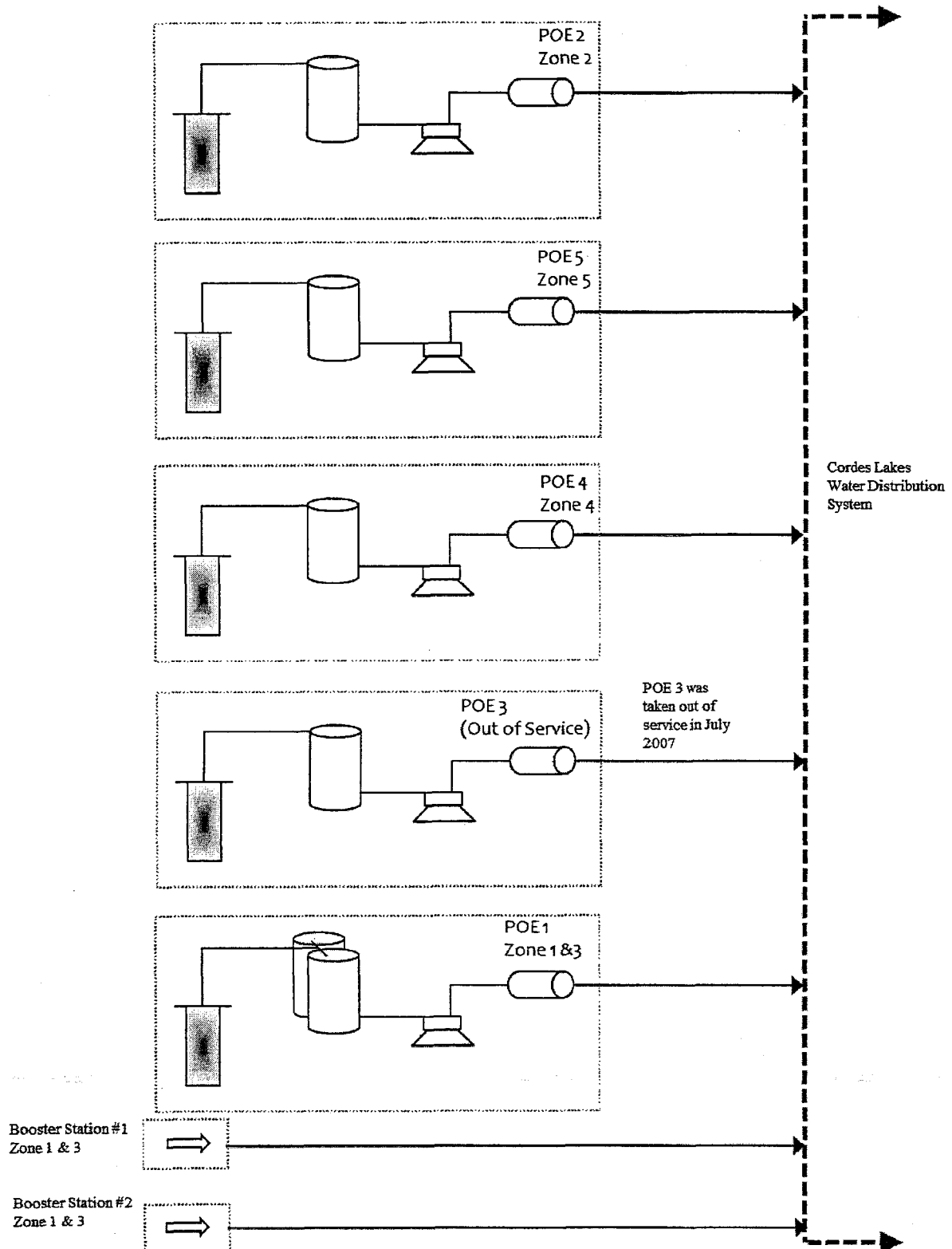
| Public Water System ("PWS") No. 13-023 |                                       |                  |                     |                  |             |                    |                 |                               |
|--|---------------------------------------|------------------|---------------------|------------------|-------------|--------------------|-----------------|-------------------------------|
| Location                               | POE#1<br>Point of<br>Entry<br>("POE") | POE #2           | POE #3 <sup>2</sup> | POE #4           | POE #5      | Booster Stations   |                 |                               |
|  |                                       |                  |                     |                  |             | #1 ('A'<br>Tract ) | #2(lot<br>1545) | #3 (lot<br>2115) <sup>3</sup> |
| Well ADWR #                            | 55-690346                             | 55-518196        | 55-609234           | 55-609347        | 55-565855   | NA                 | NA              |                               |
| Casing Size (inch)                     | 14                                    | 8                | 6                   | 12               | 10          | NA                 | NA              |                               |
| Casing Depth<br>(feet)                 | unknown                               | 380              | 343                 | 500              | 343         | NA                 | NA              |                               |
| Meter Size (inch)                      | 3                                     | 3                | 3                   | 3                | 3           | NA                 | NA              |                               |
| Pump Size (HP)                         | (1) 7.5                               | (1) 7.5          | (1) 2               | (1) 7.5          | (1) 10      | NA                 | NA              |                               |
| Pump Yield<br>(GPM)                    | 65                                    | 95               | 12                  | 94               | 65          | NA                 | NA              |                               |
| Well Yield<br>(GPM)                    | 85                                    | 86               | 0                   | 100              | 45          | NA                 | NA              |                               |
| Storage tank<br>(gallons)              | (2) 45,000                            | (1) 30,000       | (1) 16,000          | (1) 30,000       | (1) 100,000 | NA                 | NA              |                               |
| Booster Pumps<br>(HP)                  | (2) 7.5                               | (2) 7.5          | (2) 5               | (2) 10           | (2) 7.5     | (2) 5              | (2) 5           |                               |
| Pressure Tanks<br>(gallons)            | (1) 5,000                             | (1) 3,000        | (1) 2,000           | (1) 5,000        | (1) 5,000   | (1) 500            | (1) 500         |                               |
| Chlorinators                           | Yes                                   | Yes              | No                  | Yes              | Yes         | NA                 | NA              |                               |
| Pump House                             | 8'x 8' wood                           | 8'x 8' block     | 10'x 12'<br>wood    | 12'x12'<br>block | 8'x 8' wood | NA                 | NA              |                               |
| Fencing (chain<br>link)                | Fencing                               | Fencing          | Fencing             | Fencing          | Fencing     | Fencing            | Fencing         | Fencing                       |
| Distribution Mains                     |                                       |                  |                     | Customer Meters  |             |                    |                 |                               |
| Size (in inches)                       | Material                              | Length (in feet) |                     | Size (in inches) |             | Quantity           |                 |                               |
| 4                                      | PVC                                   | 168,100          |                     | 3/4              |             | 1401               |                 |                               |
| 6                                      | PVC                                   | 230,040          |                     | 1                |             | 5                  |                 |                               |

<sup>1</sup> The plant information presented in Table A was provided in the application and during Staff's site visit.

<sup>2</sup> The plant items listed for POE #3 were disconnected from the system in 2007 and left in-place at the well site.

<sup>3</sup> Booster Station #3 was disconnected from the system in 2007, all plant has been removed from the site.

Figure 3 System Schematic



## C. WATER USE

### Water Sold

Figure 4 represents the water consumption data for the test year ending December 31, 2011, provided by the Company in its water use data sheet. Customer consumption included a high monthly water use of 198 gallons per day ("GPD") per connection in June, and the low water use was 95 GPD per connection in December. The average annual use was 138 GPD per connection.

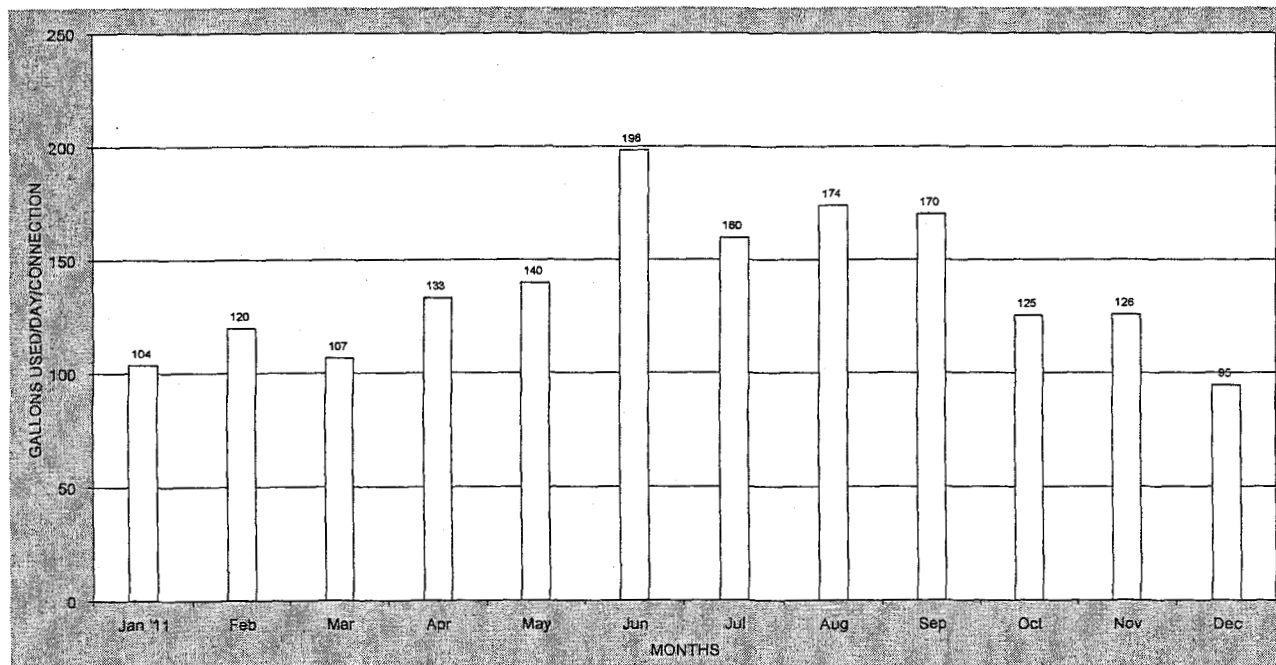


Figure 4 Water Use

### Non-account Water

Non-account water should be 10 percent or less. It is important to be able to reconcile the difference between water sold and the water produced by the source. A water balance will allow a company to identify water and revenue losses due to leakage, theft and flushing.

The Company reported 87,375,000 gallons pumped and 65,097,000 gallons sold during the 2011 test year, resulting in a water loss of 25.5 percent. In its prior rate case the Company reported a 10.1 percent water loss during the 2006 test year and was ordered to monitor its water system closely and take action to ensure the loss remained 10 percent or less in the future. If the water loss at any time before the next rate case exceeded 10 percent, the Company was further ordered to prepare a plan to reduce water loss to less than 10 percent, or prepare a report containing a detailed analysis and explanation demonstrating why a water loss reduction to 10 percent or less was not feasible or cost effective. A copy of either the reduction plan or the feasibility report was to be filed with the Commission's Docket Control as a compliance item.

The following table shows that the Company's non-account water has steadily increased since 2006.

Table B. Non-Account Water

| Year | Gallons Sold | Gallons Pumped | Non-account Water |
|------|--------------|----------------|-------------------|
| 2006 | 74,133,000   | 82,488,000     | 10.1%             |
| 2007 | 76,778,000   | 86,698,000     | 11.4%             |
| 2008 | 71,504,000   | 86,684,000     | 17.5%             |
| 2009 | 74,682,000   | 89,325,000     | 16.4%             |
| 2010 | 64,023,000   | 83,594,000     | 23.4%             |
| 2011 | 65,097,000   | 87,375,000     | 25.5%             |

On February 22, 2012, Cordes Lakes filed a water loss reduction plan. According to the plan the Company intends to implement the following in 2012:

- Monitor Water pumped versus water delivered to customers on a monthly basis;
- Begin to identify those portions of the Company's distribution system in most need of replacement, including all mains and storage facilities, and develop a five year capital improvement plan;
- Look for and eliminate any unauthorized connections; and,
- Test all water meters and repair or replace defective meters.

The Company would like to establish a surcharge mechanism in the pending rate case to hire a leak detection company, to pay for leak repairs and to pay for the repair and replacement of defective meters. The Company proposes to spend \$30,000 in 2013 and another \$30,000 in 2014 on leak repairs and \$10,000 each year for three years beginning in 2012 on meter repair and replacement. These proposed expenditure levels are a good starting point. However, the Company should monitor its water loss closely and adjust its plan if needed. This does not imply a specific treatment of rate base for rate making purposes in the Company's future rate filings.

### System Analysis

### Storage and Production

Based on the data provided by the Company, the system's current well production capacity is 290 GPM<sup>4</sup> and storage capacity is 250,000 gallons<sup>5</sup>. The system had 1,295 connections during the test year peak month of June 2011. Staff concludes that the Company's current well production and storage capacities are adequate to serve the present customer base and reasonable growth.<sup>6</sup>

<sup>4</sup> Staff used the lesser number listed for pump yield versus well yield to determine well/source production capacity.

<sup>5</sup> Staff reduced total storage to remove the 16,000 gallon storage tank at abandoned well site POE #3.

<sup>6</sup> Staff did not include a fire flow requirement in its capacity calculation.

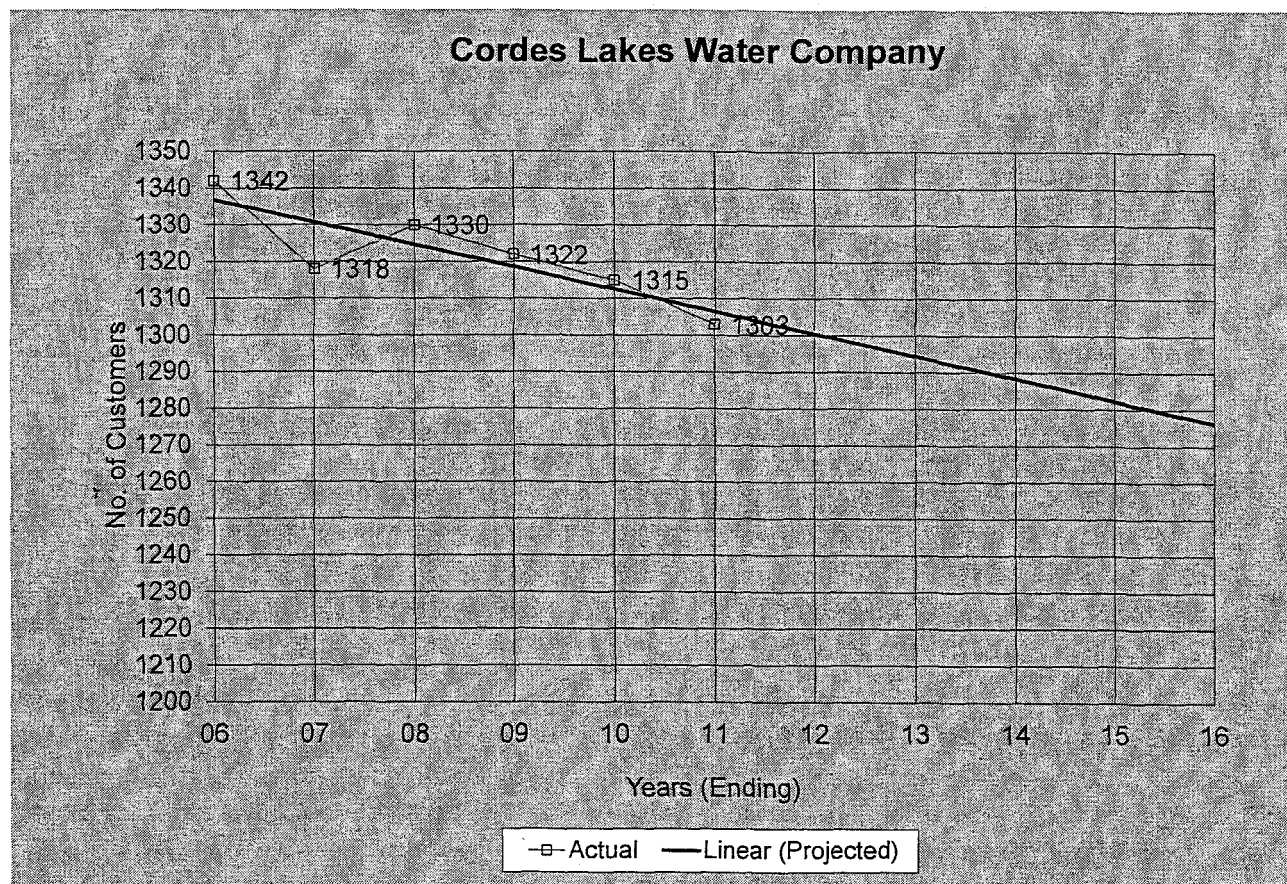


### Hydropneumatic (Pressure) Tanks

The Cordes Lakes water system uses multiple pressure tanks to maintain adequate water pressure through three pressure zones in its distribution system. Correct sizing of these pressure tanks is important because the size of the tank directly determines the frequency of pump cycling (more on-off cycling of the pump may shorten the life of the pump). The Cordes Lakes water system does not have adequate pressure tank capacity. Staff recommends that the Company closely monitor its water system to ensure that pump over-cycling does not occur due to inadequate pressure tank capacity. Staff further recommends that prior to filing its next rate case the Company review the sizing of its pressure tanks and file, with the Commission's Docket Control as a compliance item in this docket, the results of its review including actions the Company plans to take to prevent pump over-cycling.

### **D. GROWTH**

Based on customer data obtained from annual reports the Company submits to the Commission, the number of customers served by the Company has declined every year since 2006 the peak number of customers each year declined from 1,342 to 1,303. According to the Company no new meters were installed in 2011. Unless the economic climate improves the number of customers served by the Company could continue to decline (see Figure 5 below).



**Figure 5 Growth Projection**

## E. ARIZONA DEPARTMENT OF ENVIRONMENTAL QUALITY ("ADEQ") COMPLIANCE

### Compliance

ADEQ regulates the Cordes Lakes water system under Public Water System Identification ("PWS ID") No. 13-023. According to ADEQ the Cordes Lakes water system has no major deficiencies and is delivering water that meets water quality standards required by 40 CFR 141/Arizona Administrative Code, Title 18, Chapter 4 and the PWS is in compliance.<sup>7</sup>

### Water Testing Expense

The Company is subject to mandatory participation in ADEQ's Monitoring Assistance Program ("MAP").<sup>8</sup> Therefore the system is only required to obtain distribution samples, and any increased monitoring parameters identified through the MAP sampling. The Company reported its water testing expense during the test year at \$1,806, less the MAP fee.<sup>9</sup> Staff has reviewed the Company's testing expense and has recalculated the expense. Table B below shows Staff's annual water testing expense estimate of \$5,858 with participation in the MAP program.

Table B. Water Testing Cost

| Monitoring                  | Cost per test  | Quantity of tests per 3 years | Annual Testing Cost |
|-----------------------------|----------------|-------------------------------|---------------------|
| Coliform (Monthly)          | \$26.25        | 108 (Note 1)                  | \$945               |
| MAP                         | MAP            | MAP                           | \$3,622 (Note 3)    |
| Lead & Copper (Triennially) | \$43           | 30                            | \$430               |
| DBPs (Annually)             | \$861 (Note 2) | 3                             | \$861               |
| Total Testing Cost          | -              | -                             | \$5,858             |

- Notes: 1) Cordes Lakes is currently taking three Total Coliform samples per month.  
 2) Cordes Lakes is required to take four DBP (TTHM + HAA5) samples annually.  
 3) The ADEQ MAP invoice for Calendar Year 2011 was \$3,621.84.

<sup>7</sup> ADEQ Drinking Water Compliance Status Report, dated October 2, 2012.

<sup>8</sup> Participation in the MAP program is mandatory for water systems, which serve less than 10,000 persons (approximately 3,300 service connections).

<sup>9</sup> See Schedule E-2 in the Application.

**F. ARIZONA DEPARTMENT OF WATER RESOURCES ("ADWR") COMPLIANCE**Compliance

Cordes Lakes is not within an Active Management Area, and consequently is not subject to ADWR reporting and conservation requirements. ADWR has determined that the Company is currently compliant with departmental requirements governing water providers and/or community water systems.<sup>10</sup>

Well Ownership<sup>11</sup>

| <u>Well Reg. No.</u> | <u>Location (POE #)</u> | <u>Registered Owner</u> |
|----------------------|-------------------------|-------------------------|
| 55-609346            | 1                       | Cordes Lakes Water Co   |
| 55-518196            | 2                       | Cordes Lakes Water Co   |
| 55-609234 (Note 1)   | 3                       | JA Bren                 |
| 55-609347            | 4                       | Cordes Lakes Water Co   |
| 55-565855            | 5                       | Cordes Lakes Water Co   |

Note: 1) Well taken out of service in 2007.

**G. ACC COMPLIANCE**

A check with the Commission's Utilities Division Compliance Section showed that there are currently no delinquent compliance items for Cordes Lakes.<sup>12</sup>

**H. DEPRECIATION RATES**

In the prior rate case, the Company adopted Staff's typical and customary water depreciation rates. These rates are presented in Table C and it is recommended that the Company continue to use these depreciation rates by individual National Association of Regulatory Utility Commissioners category.

**TABLE C  
TYPICAL DEPRECIATION RATES FOR WATER COMPANIES**

| NARUC<br>Account No. | Depreciable Plant                  | Average<br>Service Life<br>(Years) | Annual<br>Accrual Rate<br>(%) |
|----------------------|------------------------------------|------------------------------------|-------------------------------|
| 304                  | Structures & Improvements          | 30                                 | 3.33                          |
| 305                  | Collecting & Impounding Reservoirs | 40                                 | 2.50                          |
| 306                  | Lake, River, Canal Intakes         | 40                                 | 2.50                          |
| 307                  | Wells & Springs                    | 30                                 | 3.33                          |
| 308                  | Infiltration Galleries             | 15                                 | 6.67                          |

<sup>10</sup> Per ADWR Water Provider Compliance Report dated October 22, 2012.

<sup>11</sup> ADWR Well Registry Report Run Date: October 30, 2012.

<sup>12</sup> Per ACC compliance status check dated August 9, 2012.

|       |                                      |      |       |
|-------|--------------------------------------|------|-------|
| 309   | Raw Water Supply Mains               | 50   | 2.00  |
| 310   | Power Generation Equipment           | 20   | 5.00  |
| 311   | Pumping Equipment                    | 8    | 12.5  |
| 320   | Water Treatment Equipment            |      |       |
| 320.1 | Water Treatment Plants               | 30   | 3.33  |
| 320.2 | Solution Chemical Feeders            | 5    | 20.0  |
| 330   | Distribution Reservoirs & Standpipes |      |       |
| 330.1 | Storage Tanks                        | 45   | 2.22  |
| 330.2 | Pressure Tanks                       | 20   | 5.00  |
| 331   | Transmission & Distribution Mains    | 50   | 2.00  |
| 333   | Services                             | 30   | 3.33  |
| 334   | Meters                               | 12   | 8.33  |
| 335   | Hydrants                             | 50   | 2.00  |
| 336   | Backflow Prevention Devices          | 15   | 6.67  |
| 339   | Other Plant & Misc Equipment         | 15   | 6.67  |
| 340   | Office Furniture & Equipment         | 15   | 6.67  |
| 340.1 | Computers & Software                 | 5    | 20.00 |
| 341   | Transportation Equipment             | 5    | 20.00 |
| 342   | Stores Equipment                     | 25   | 4.00  |
| 343   | Tools, Shop & Garage Equipment       | 20   | 5.00  |
| 344   | Laboratory Equipment                 | 10   | 10.00 |
| 345   | Power Operated Equipment             | 20   | 5.00  |
| 346   | Communication Equipment              | 10   | 10.00 |
| 347   | Miscellaneous Equipment              | 10   | 10.00 |
| 348   | Other Tangible Plant                 | ---- | ----  |

## NOTES:

1. These depreciation rates represent average expected rates. Water companies may experience different rates due to variations in construction, environment, or the physical and chemical characteristics of the water.
2. Acct. 348, Other Tangible Plant may vary from 5% to 50%. The depreciation rate would be set in accordance with the specific capital items in this account.

**I. OTHER ISSUES****1. Service Line and Meter Installation Charges**

Cordes Lakes proposed an increase in the amount it would charge going forward for service line and meter installations.<sup>13</sup> Service line and meter installation charges are refundable advances and the charges the Company proposed are within the typical range for these charges.<sup>14</sup> The Company's current and proposed charges include separate service line and meter charges. Staff recommends

<sup>13</sup> See "Additions to Rate Increase Application" submitted on November 8, 2012.

<sup>14</sup> Except for the 6-inch meter where the Company proposed a slightly higher charge.

that the charges listed under "Company Proposed and Staff's Recommendation" in Table D be adopted.

**Table D. Service Line and Meter Installation Charges**

| Meter Size     | Present Charges     |              |              | Company Proposed and Staff's Recommendation |              |              |
|----------------|---------------------|--------------|--------------|---|--------------|--------------|
|                | Service Line Charge | Meter Charge | Total Charge | Service Line Charge                         | Meter Charge | Total Charge |
| 5/8 x 3/4-inch | -                   | -            | -            | -   | -            | -            |
| 3/4-inch       | \$355               | \$165        | \$520        | \$426                                       | \$198        | \$624        |
| 1-inch         | \$405               | \$205        | \$610        | \$486                                       | \$246        | \$732        |
| 1-1/2-inch     | \$440               | \$415        | \$855        | \$528                                       | \$498        | \$1,026      |
| 2-inch         | \$600               | \$915        | \$1,515      | \$720                                       | \$1,098      | \$1,818      |
| 3-inch         | \$775               | \$1,420      | \$2,195      | \$930                                       | \$1,764      | \$2,694      |
| 4-inch         | \$1,110             | \$2,250      | \$3,360      | \$1,332                                     | \$2,700      | \$4,032      |
| 6-inch         | \$1,670             | \$4,445      | \$6,115      | \$2,000                                     | \$5,350      | \$7,350      |

Notes: 1) The Company reported that it has no 5/8 x 3/4 inch meters.

## **2. Curtailment Plan Tariff**

The Company has an approved curtailment tariff on file with the Commission.

## **3. Backflow Prevention Tariff**

The Company has an approved backflow tariff on file with the Commission.

## **4. Best Management Practices ("BMP") Tariff**

Staff recommends that the Company file with Docket Control, as a compliance item in this docket and within 45 days of the effective date of a decision in this proceeding, at least five BMPs in the form of tariffs that substantially conform to the templates created by Staff for Commission's review and consideration. The templates created by Staff are available on the Commission's website at <http://www.azcc.gov/Divisions/Utilities/forms.asp>.

Staff further recommends that a maximum of two BMPs may come from the "Public Awareness/Public Relations" or "Education and Training" categories. The Company may request cost recovery of the actual costs associated with the BMPs implemented in its next general rate application.

**5. Service Outside Certificated Service Area**

The Company is currently providing service to customers outside its Certificate of Convenience and Necessity ("CC&N") in the Southwest Quarter of the Northwest Quarter of Section 24, Township 11 North, Range 2 East of the Gila and Salt River Base and Meridian, Yavapai County, Arizona. Staff recommends that the Company file an application to extend its CC&N to include this area within 90 days of the effective date of a decision in this proceeding.

BEFORE THE ARIZONA CORPORATION COMMISSION

BOB STUMP

Chairman

GARY PIERCE

Commissioner

BRENDA BURNS

Commissioner

BOB BURNS

Commissioner

SUSAN BITTER SMITH

Commissioner



IN THE MATTER OF THE APPLICATION OF )  
CORDES LAKES WATER COMPANY FOR )  
AN INCREASE IN ITS RATES )  
\_\_\_\_\_ )

DOCKET NO W-02060A-12-0356

DIRECT  
TESTIMONY  
OF

JOHN A. CASSIDY

PUBLIC UTILITIES ANALYST  
UTILITIES DIVISION  
ARIZONA CORPORATION COMMISSION

FEBRUARY 8, 2013

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**EXECUTIVE SUMMARY  
CORDES LAKES WATER COMPANY  
DOCKET NO. W-02060A-12-0356**

The direct testimony of Staff witness John A. Cassidy addresses the following issues:

Capital Structure – Staff recommends that the Commission adopt a capital structure for Cordes Lakes Water Company (“Cordes Lakes” or “Company”) for this proceeding consisting of 0.0 percent debt and 100.0 percent equity.

Cost of Equity – Staff recommends that the Commission adopt a 9.1 percent return on equity (“ROE”) for the Company. Staff’s estimated ROE for the Company is based on the average of its discounted cash flow method (“DCF”) and capital asset pricing model (“CAPM”) cost of equity methodology estimates for the sample companies of 8.2 percent for the CAPM and 8.8 percent for DCF. Staff’s recommended ROE includes an upward economic assessment adjustment of 60 basis points.

Cost of Debt – Staff recommends that the Commission adopt a 0.0 percent cost of debt for the Company, as the Company has no debt in its capital structure.

Overall Rate of Return – Staff recommends that the Commission adopt a 9.1 percent overall rate of return.

Company-Proposed Cost of Capital – The Company’s application does not present testimony pertaining to the cost of capital. Schedule A-1 of the application shows the requested overall rate of return as 8.0 percent. Schedule D-1 “Summary of Cost of Capital” of the application shows a capital structure comprised of only \$18,170 for customer deposits at a 6.0 percent cost rate. Schedule E-1 “Comparative Balance Sheet” of the application shows \$651,634 for total shareholders’ equity. Staff has calculated the capital structure implied by the Company’s application comprised of 2.7 percent debt and 97.3 percent equity and has also calculated the implied ROE of 8.1 percent. Staff opposes including customer deposits as a component of the capital structure. The Commission has a long-standing record of treating customer deposits as a deduction in the calculation of rate base as opposed to the Company’s proposed treatment.

**I. INTRODUCTION**

**Q. Please state your name, occupation, and business address.**

**A.** My name is John A. Cassidy. I am a Public Utilities Analyst employed by the Arizona Corporation Commission ("Commission") in the Utilities Division ("Staff"). My business address is 1200 West Washington Street, Phoenix, Arizona 85007.

**Q. Briefly describe your responsibilities as a Public Utilities Analyst.**

**A.** I am responsible for the examination of financial and statistical information included in utility rate applications and other financial matters, including studies to estimate the cost of capital component in rate filings used to determine the overall revenue requirement, and for preparing written reports, testimonies and schedules to present Staff's recommendations to the Commission on these matters.

**Q. Please describe your educational background and professional experience.**

**A.** I hold a Bachelor of Arts degree in History from Arizona State University, a Master of Library Science degree from the University of Arizona, and an MBA degree with an emphasis in Finance from Arizona State University. While pursuing my MBA degree, I was inducted into Beta Gamma Sigma, the National Business Honor Society. I have passed the CPA exam, but opted not to pursue certification. I have worked professionally as a librarian, financial consultant, tax auditor, and, as a former Commission employee, served as Staff's cost of capital witness in rate case evidentiary proceedings.

**Q. What is the scope of your testimony in this case?**

**A.** My testimony provides Staff's recommended capital structure, return on equity ("ROE") and overall rate of return ("ROR") for establishing the revenue requirements for Cordes Lakes Water Company's ("Cordes Lakes" or "Company") pending rate case application.

**Summary of Testimony and Recommendations**

**Q. Briefly summarize how Staff's cost of capital testimony is organized.**

A. Staff's cost of capital testimony is presented in eleven sections. Section I is this introduction. Section II discusses the concept of weighted average cost of capital ("WACC"). Section III presents the concept of capital structure and presents Staff's recommended capital structure for Cordes Lakes in this proceeding. Section IV presents Staff's cost of debt for Cordes Lakes. Section V discusses the concepts of ROE and risk. Section VI presents the methods employed by Staff to estimate Cordes Lakes' ROE. Section VII presents the findings of Staff's ROE analysis. Section VIII presents Staff's final cost of equity estimates for Cordes Lakes. Section IX presents Staff's ROR recommendation. Section X presents Staff's comments on the cost of capital aspects of the Company's application. Finally, section XI presents the conclusions.

**Q. Have you prepared any schedules to accompany your testimony?**

A. Yes. I prepared nine schedules (JAC-1 to JAC-9) that support Staff's cost of capital analysis.

**Q. What is Staff's recommended rate of return ("ROR") for Cordes Lakes?**

A. Staff recommends a 9.1 percent overall ROR, as shown in Schedule JAC-1. Staff's ROR recommendation is based on cost of equity estimates for the sample companies of 8.8 percent from the discounted cash flow method ("DCF") and 8.2 percent from the capital asset pricing method ("CAPM") estimation methodologies. Staff recommends adoption of a 60 basis point upward Economic Assessment Adjustment, resulting in a 9.1 percent return on equity.

**Cordes Lakes' Proposed Overall Rate of Return**

**Q. Briefly summarize Cordes Lakes' proposed capital structure, cost of debt, ROE and overall ROR for this proceeding.**

**A. Table 1 summarizes the Company's proposed capital structure, cost of debt, ROE and overall ROR in this proceeding:**

**Table 1**

|                            | <b>Weight</b> | <b>Cost</b> | <b>Weighted<br/>Cost</b> |
|----------------------------|---------------|-------------|--------------------------|
| Long-term Debt             | 2.7%          | 6.0%        | 0.2%                     |
| Common Equity              | 97.3%         | 8.1%        | 7.8%                     |
| <b>Cost of Capital/ROR</b> |               |             | <b>8.0%</b>              |

Cordes Lakes is proposing an overall rate of return of 8.0 percent.<sup>1</sup>

**II. THE WEIGHTED AVERAGE COST OF CAPITAL**

**Q. Briefly explain the cost of capital concept.**

**A. The cost of capital is the opportunity cost of choosing one investment over others with equivalent risk. In other words, the cost of capital is the return that stakeholders expect for investing their financial resources in a determined business venture over another business venture.**

<sup>1</sup> The Company's application does not present testimony pertaining to the cost of capital. Schedule A-1 of the application shows the requested overall rate of return as 8.0 percent. Schedule D-1 "Summary of Cost of Capital" of the application shows a capital structure comprised of only \$18,170 for customer deposits at a 6.0 percent cost rate. Schedule E-1 "Comparative Balance Sheet" of the application shows \$651,634 for total shareholders' equity. Staff has calculated the capital structure implied by the Company's application comprised of 2.7 percent debt and 97.3 percent equity and has also calculated the implied ROE of 8.1 percent.

1    **Q.    What is the overall cost of capital?**

2    A.    The cost of capital to a company issuing a variety of securities (i.e., stock and  
3    indebtedness) is an average of the cost rates on all issued securities adjusted to reflect the  
4    relative amounts for each security in the company's entire capital structure. Thus, the  
5    overall cost of capital is the WACC.

6  
7    **Q.    How is the WACC calculated?**

8    A.    The WACC is calculated by adding the weighted expected returns of a firm's securities.  
9    The WACC formula is:

10    Equation 1.

11    
$$\text{WACC} = \sum_{i=1}^n W_i * r_i$$
  
12  
13

14    In this equation,  $W_i$  is the weight given to the  $i^{\text{th}}$  security (the proportion of the  $i^{\text{th}}$  security  
15    relative to the portfolio) and  $r_i$  is the expected return on the  $i^{\text{th}}$  security.

1 **Q. Can you provide an example demonstrating application of Equation 1?**

2 A. Yes. For this example, assume that an entity has a capital structure composed of 60  
3 percent debt and 40 percent equity. Also, assume that the embedded cost of debt is 6.0  
4 percent and the expected return on equity, i.e., the cost of equity, is 10.5 percent.  
5 Calculation of the WACC is as follows:

6 
$$\text{WACC} = (60\% * 6.0\%) + (40\% * 10.5\%)$$

7 
$$\text{WACC} = 3.60\% + 4.20\%$$

8 
$$\text{WACC} = 7.80\%$$

9  
10 The weighted average cost of capital in this example is 7.80 percent. The entity in this  
11 example would need to earn an overall rate of return of 7.80 percent to cover its cost of  
12 capital.

13  
14 **III. CAPITAL STRUCTURE**

15 **Background**

16 **Q. Please explain the capital structure concept.**

17 A. The capital structure of a firm is the relative proportions of each type of security - short-  
18 term debt, long-term debt (including capital leases), preferred stock and common stock--  
19 that are used to finance the firm's assets.

20  
21 **Q. How is the capital structure expressed?**

22 A. The capital structure of a company is expressed as the percentage of each component of  
23 the capital structure (capital leases, short-term debt, long-term debt, preferred stock and  
24 common stock) relative to the entire capital structure.

As an example, the capital structure for an entity that is financed by \$20,000 of short-term debt, \$85,000 of long-term debt (including capital leases), \$15,000 of preferred stock and \$80,000 of common stock is shown in Table 2.

**Table 2**

| Component       |           |                      | %     |
|-----------------|-----------|----------------------|-------|
| Short-Term Debt | \$20,000  | (\$20,000/\$200,000) | 10.0% |
| Long-Term Debt  | \$85,000  | (\$85,000/\$200,000) | 42.5% |
| Preferred Stock | \$15,000  | (\$15,000/\$200,000) | 7.5%  |
| Common Stock    | \$80,000  | (\$80,000/\$200,000) | 40.0% |
| Total           | \$200,000 |                      | 100%  |

The capital structure in this example is composed of 10.0 percent short-term debt, 42.5 percent long-term debt, 7.5 percent preferred stock and 40.0 percent common stock.

#### **Cordes Lakes' Capital Structure**

**Q. What capital structure does Cordes Lakes propose?**

A. The Company proposes a capital structure composed of 2.7 percent debt and 97.3 percent common equity,<sup>2</sup> as of the December 31, 2011, test-year end date.

**Q. How does Cordes Lakes' capital structure compare to capital structures of publicly-traded water utilities?**

A. Schedule JAC-4 shows the capital structures of six publicly-traded water companies ("sample water companies" or "sample water utilities") as of December 2011. The

<sup>2</sup> Staff has inferred this to be the Company's proposed capital structure, based on Service Deposit debt of \$18,170 reported in Schedule D-1 of the Company's application, and total stockholder's equity amounting to \$651,634 in Schedule E-1 of the Company's filing.



1 average capital structure for the sample water utilities is comprised of approximately 51.6  
2 percent debt and 48.4 percent equity.

3  
4 **Staff's Capital Structure**

5 **Q. What is Staff's recommended capital structure for Cordes Lakes?**

6 A. Staff recommends a capital structure composed of 0.0 percent debt and 100.0 percent  
7 equity which reflects the Company's actual capital structure as of the December 31, 2011,  
8 the test year end, as shown in Schedule E-1 "Comparative Balance Sheet" of the  
9 Company's application.

10  
11 **IV. COST OF DEBT**

12 **Q. What is the basis for the Company's proposed 6.0 percent cost of debt?**

13 A. The Company's proposed debt is comprised entirely of customer deposits. Arizona  
14 Administrative Code ("A.A.C") R14-2-403(B) provides for the Company to pay interest  
15 on customer deposits at 6 percent per annum.

16  
17 **Q. Does the Commission normally treat customer deposits as a component of the capital  
18 structure?**

19 A. No. The Commission has a long-standing practice of treating customer deposits as a  
20 deduction in the calculation of rate base as opposed to as a component of the capital  
21 structure, and Staff advocates that the Commission continue its usual practice in this case.  
22 Thus, the Company has no debt in its capital structure.

**V. RETURN ON EQUITY**

**Background**

**Q. Please define the term "cost of equity capital."**

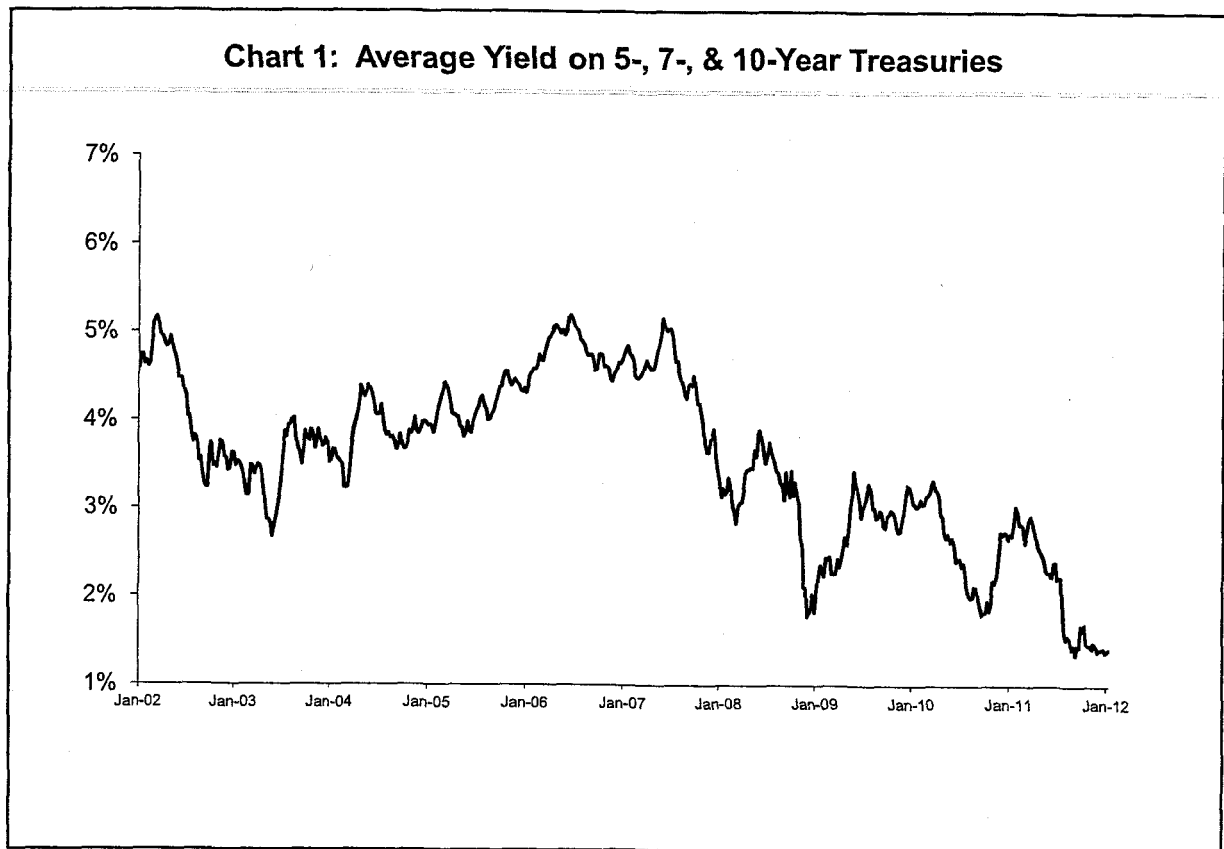
**A.** The cost of equity is the rate of return that investors expect to earn on their investment in a business entity given its risk. In other words, the cost of equity to the entity is the investors' expected rate of return on other investments of similar risk. As investors have a wide selection of stocks to choose from, they will choose stocks with similar risks but higher returns. Therefore, the market determines the entity's cost of equity.

**Q. Is there a correlation between interest rates and the cost of equity?**

**A.** Yes, there is a positive correlation between interest rates and the cost of equity, as the two tend to move in the same direction. This relationship is reflected in the CAPM formula. The CAPM is a market-based model employed by Staff for estimating the cost of equity. The CAPM is further discussed in Section VI of this testimony.

**Q. What has been the general trend of interest rates in recent years?**

**A.** A chronological chart of interest rates is a good tool to show interest rate history and identify trends. Chart 1 graphs intermediate U.S. treasury rates from January 18, 2002, to January 27, 2012.



15 Chart 1 shows that intermediate-term interest rates trended downward from 2002 to mid-  
16 2003, trended upward through early-2008, trended downward through early-2009, trended  
17 upward through mid-2010, trended downward through late 2010, trended upward to mid-  
18 2011, and are currently trending down from the existing, relatively low rates.

19  
20 **Q. What has been the general trend in interest rates longer term?**

21 **A.** U.S. Treasury rates from December 1961 - December 2011 are shown in Chart 2. The  
22 chart shows that interest rates trended upward through the mid-1980s and have trended  
23 downward over the last 25 years.

24



Source: Federal Reserve

Q. Do these trends suggest anything in terms of cost of equity?

A. Yes. As previously noted, interest rates and cost of equity tend to move in the same direction; therefore, the cost of equity has declined in the past 25 years.

Q. Do actual returns represent the cost of equity?

A. No. The cost of equity represents investors' *expected* returns and not realized returns.

1 **Q. Is there any information available that leads to an understanding of the relationship**  
2 **between the equity returns required for a regulated water utility and those required**  
3 **in the market as a whole?**

4 A. Yes. A comparison of betas, a component of the CAPM discussed in Section VI, for the  
5 water utility industry and the market provide insight into this relationship. In theory, the  
6 market has a beta value of 1.0, with stocks bearing greater risk (less risk) than the market  
7 having beta values higher than (lower than) 1.0, respectively. Furthermore, in accordance  
8 with the CAPM, the cost of equity capital moves in the same direction as beta. Therefore,  
9 because the average beta value (0.71)<sup>3</sup> for a water utility is less than 1.0, the required  
10 return on equity for a regulated water utility is below that of the market as a whole.

11  
12 **Risk**

13 **Q. Please define risk in relation to cost of capital.**

14 A. Risk, as it relates to an investment, is the variability or uncertainty of the returns on a  
15 particular security. Investors are risk averse and require a greater potential return to invest  
16 in relatively greater risk opportunities, i.e., investors require compensation for taking on  
17 additional risk. Risk is generally separated into two components. Those components are  
18 market risk (systematic risk) and non-market risk (diversifiable risk or firm-specific risk).

19  
20 **Q. What is market risk?**

21 A. Market risk or systematic risk is the risk of an investment that cannot be reduced through  
22 diversification. Market risk stems from factors that affect all securities, such as  
23 recessions, war, inflation and high interest rates. Since these factors affect the entire  
24 market they cannot be eliminated through diversification. Market risk does not impact  
25 each security to the same degree. The degree to which a given security's return is affected

---

<sup>3</sup> See Schedule JAC-7.

1 by market fluctuations can be measured using Beta. Beta reflects the business risk and the  
2 financial risk of a security.

3  
4 **Q. Please define business risk.**

5 A. Business risk is the fluctuation of earnings inherent in a firm's operations and  
6 environment, such as competition and adverse economic conditions that may impair its  
7 ability to provide returns on investment. Companies in the same or similar line of  
8 business tend to experience the same fluctuations in business cycles.

9  
10 **Q. Please define financial risk.**

11 A. Financial risk is the fluctuation of earnings, inherent in the use of debt financing, that may  
12 impair a firm's ability to provide adequate return; the higher the percentage of debt in a  
13 company's capital structure, the greater its exposure to financial risk.

14  
15 **Q. Do business risk and financial risk affect the cost of equity?**

16 A. Yes.

17  
18 **Q. Is a firm subject to any other risk?**

19 A. Yes. Firms are also subject to unsystematic or firm-specific risk. Examples of  
20 unsystematic risk include losses caused by labor problems, nationalization of assets, loss  
21 of a big client or weather conditions. Investors can eliminate firm-specific risk by holding  
22 a diverse portfolio; thus, it is not of concern to diversified investors.

1     **Q.     How does Cordes Lakes' financial risk exposure compare to that of Staff's sample**  
2     **group of water companies?**

3     A.     JAC-4 shows the capital structures of the six sample water companies as of December 31,  
4           2011, and Cordes Lakes' adjusted capital structure as of the end of the test year, December  
5           31, 2011. As shown, the sample water utilities were capitalized with approximately 51.6  
6           percent debt and 48.4 percent equity, while Cordes Lakes' capital structure consists of 0.0  
7           percent debt and 100.0 percent equity. Thus, because Cordes Lakes' capital structure  
8           contains no debt, the Company has no exposure to financial risk.

9  
10    **Q.     Is firm-specific risk measured by beta?**

11    A.     No. Firm-specific risk is not measured by beta.

12  
13    **Q.     Is the cost of equity affected by firm-specific risk?**

14    A.     No. Since firm-specific risk can be eliminated through diversification, it does not affect  
15           the cost of equity.

16  
17    **Q.     Can investors expect additional returns for firm-specific risk?**

18    A.     No. Investors who hold diversified portfolios can eliminate firm-specific risk and,  
19           consequently, do not require any additional return. Since investors who choose to be less  
20           than fully-diversified must compete in the market with fully-diversified investors, the  
21           former cannot expect to be compensated for unique risk.

**VI. ESTIMATING THE COST OF EQUITY**

**Introduction**

**Q. Did Staff directly estimate the cost of equity for Cordes Lakes?**

**A.** No. Since Cordes Lakes is not a publicly-traded company, Staff is unable to directly estimate its cost of equity due to the lack of firm-specific market data. Instead, Staff estimated the Company's cost of equity indirectly, using a representative sample group of publicly traded water utilities as a proxy, taking the average of the sample group to reduce the sample error resulting from random fluctuations in the market at the time the information is gathered.

**Q. What companies did Staff select as proxies, or comparables, for Cordes Lakes?**

**A.** Staff's sample consists of the following six publicly-traded water utilities: American States Water, California Water, Connecticut Water Services, Middlesex Water, Aqua America and SJW Corp. Staff chose these companies because they are publicly-traded and receive the majority of their earnings from regulated operations.

**Q. What models did Staff implement to estimate Cordes Lakes' cost of equity?**

**A.** Staff used two market-based models to estimate the cost of equity for Cordes Lakes: the DCF model and the CAPM.

**Q. Please explain why Staff chose the DCF and CAPM models.**

**A.** Staff chose to use the DCF and CAPM models because they are widely-recognized market-based models and have been used extensively to estimate the cost of equity. An explanation of the DCF and CAPM models follows.



**Discounted Cash Flow Model Analysis**

**Q. Please provide a brief summary of the theory upon which the DCF method of estimating the cost of equity is based.**

A. The DCF method of stock valuation is based on the theory that the value of an investment is equal to the sum of the future cash flows generated from the aforementioned investment discounted to the present time. This method uses expected dividends, market price and dividend growth rate to calculate the cost of capital. Professor Myron Gordon pioneered the DCF method in the 1960s. The DCF method has become widely used to estimate the cost of equity for public utilities due to its theoretical merit and its simplicity. Staff used the financial information for the relevant six sample companies in the DCF model and averaged the results to determine an estimated cost of equity for the sample companies.

**Q. Does Staff use more than one version of the DCF?**

A. Yes. Staff uses two versions of the DCF model: the constant-growth DCF and the multi-stage or non-constant growth DCF. The constant-growth DCF assumes that an entity's dividends will grow indefinitely at the same rate. The multi-stage growth DCF model assumes the dividend growth rate will change at some point in the future.

***The Constant-Growth DCF***

**Q. What is the mathematical formula used in Staff's constant-growth DCF analysis?**

**A. The constant-growth DCF formula used in Staff's analysis is:**

Equation 2 :

$$K = \frac{D_1}{P_0} + g$$

where :      $K$      =   the cost of equity  
                  $D_1$      =   the expected annual dividend  
                  $P_0$      =   the current stock price  
                  $g$      =   the expected infinite annual growth rate of dividends

Equation 2 assumes that the entity has a constant earnings retention rate and that its earnings are expected to grow at a constant rate. According to Equation 2, a stock with a current market price of \$10 per share, an expected annual dividend of \$0.45 per share and an expected dividend growth rate of 3.0 percent per year has a cost of equity to the entity of 7.5 percent reflected by the sum of the dividend yield ( $\$0.45 / \$10 = 4.5$  percent) and the 3.0 percent annual dividend growth rate.

**Q. How did Staff calculate the expected dividend yield ( $D_1/P_0$ ) component of the constant-growth DCF formula?**

**A. Staff calculated the expected yield component of the DCF formula by dividing the expected annual dividend ( $D_1$ ) by the spot stock price ( $P_0$ ) after the close of market on January 23, 2013, as reported by *MSN Money*.**

1    **Q.    Why did Staff use the January 23 2013, spot price rather than a historical average**  
2    **stock price to calculate the dividend yield component of the DCF formula?**

3    A.    The current, rather than historic, market price is used in order to be consistent with  
4    financial theory. In accordance with the Efficient Market Hypothesis, the current stock  
5    price is reflective of all available information on a stock, and as such reveals investors'  
6    expectations of future returns. Use of historical average stock prices illogically discounts  
7    the most recent information in favor of less recent information. The latter is stale and is  
8    representative of underlying conditions that may have changed.

9  
10   **Q.    How did Staff estimate the dividend growth (g) component of the constant-growth**  
11   **DCF model represented by Equation 2?**

12   A.    The dividend growth component used by Staff is determined by the average of six  
13   different estimation methods, as shown in Schedule JAC-8. Staff calculated historical and  
14   projected growth estimates on dividend-per-share ("DPS"),<sup>4</sup> earnings-per-share ("EPS")<sup>5</sup>  
15   and sustainable growth bases.

16  
17   **Q.    Why did Staff examine EPS growth to estimate the dividend growth component of**  
18   **the constant-growth DCF model?**

19   A.    Historic and projected EPS growth are used because dividends are related to earnings.  
20   Dividend distributions may exceed earnings in the short run, but cannot continue  
21   indefinitely. In the long term, dividend distributions are dependent on earnings.

---

<sup>4</sup> Derived from information provided by *Value Line*.

<sup>5</sup> Derived from information provided by *Value Line*.

1 **Q. How did Staff estimate historical DPS growth?**

2 A. Staff estimated historical DPS growth by calculating a compound annual DPS growth rate  
3 for each of its sample companies over the 10-year period, 2003-2012.<sup>6</sup> As shown in  
4 Schedule JAC-5, the average historical DPS growth rate for the sample was 3.4 percent.

5  
6 **Q. How did Staff estimate projected DPS growth?**

7 A. Staff calculated an average of the projected DPS growth rates for the sample water utilities  
8 from *Value Line* through the period, 2015-2017. The average projected DPS growth rate  
9 is 3.7 percent, as shown in Schedule JAC-5.

10  
11 **Q. How did Staff estimate historical EPS growth rate?**

12 Staff estimated historical EPS growth by calculating a compound annual EPS growth rate  
13 for each of its sample companies over the 10-year period, 2002-2011.<sup>7</sup> As shown in  
14 Schedule JAC-5, the average historical EPS growth rate for the sample was 4.2 percent.

15  
16 **Q. How did Staff estimate projected EPS growth?**

17 A. Staff calculated an average of the projected EPS growth rates for the sample water utilities  
18 from *Value Line* through the period, 2015-2017. The average projected EPS growth rate  
19 is 7.0 percent, as shown in Schedule JAC-5.

20  
21 **Q. How does Staff calculate its historical and projected sustainable growth rates?**

22 A. Historical and projected sustainable growth rates are calculated by adding their respective  
23 retention growth rate terms (br) to their respective stock financing growth rate terms (vs),  
24 as shown in Schedule JAC-6.

---

<sup>6</sup> Staff updated its 10-year historical dividend growth calculation to cover the period, 2003-2012, as the annual dividend paid by each sample company in 2012 is known and measureable.

<sup>7</sup> The 10-year historical EPS growth calculation covers the period, 2002-2011, as the 2012 annual EPS number for each sample has yet to be announced.

1     **Q.     What is retention growth?**

2     A.     Retention growth is the growth in dividends due to the retention of earnings. The  
3             retention growth concept is based on the theory that dividend growth cannot be achieved  
4             unless the company retains and reinvests some of its earnings. The retention growth is  
5             used in Staff's calculation of sustainable growth shown in Schedule JAC-6.

6  
7     **Q.     What is the formula for the retention growth rate?**

8     A.     The retention growth rate is the product of the retention ratio and the book/accounting  
9             return on equity. The retention growth rate formula is:

10            Equation 3 :

$$\text{Retention Growth Rate} = br$$

              where :     ***b***   =   the retention ratio (1 – dividend payout ratio)  
                              ***r***   =   the accounting/book return on common equity

11  
12    **Q.     How did Staff calculate the average historical retention growth rate (br) for the**  
13             **sample water utilities?**

14    A.     Staff calculated the mean of the 10-year average historical retention rate for each sample  
15             company over the period, 2002-2011. As shown in Schedule JAC-6, the historical  
16             average retention (br) growth rate for the sample is 2.9 percent.

17  
18    **Q.     How did Staff estimate its projected retention growth rate (br) for the sample water**  
19             **utilities?**

20    A.     Staff used the retention growth projections for the sample water utilities for the period,  
21             2015-2017, from *Value Line*. As shown in Schedule JAC-6, the projected average  
22             retention growth rate for the sample companies is 4.4 percent.

1    **Q.    When can retention growth provide a reasonable estimate of future dividend**  
2    **growth?**

3    A.    The retention growth rate is a reasonable estimate of future dividend growth when the  
4    retention ratio is reasonably constant and the entity's market price to book value ("market-  
5    to-book ratio") is expected to be 1.0. The average retention ratio has been reasonably  
6    constant in recent years. However, the market-to-book ratio for the sample water utilities  
7    is 2.1, notably higher than 1.0, as shown in Schedule JAC-7.

8  
9    **Q.    Is there any financial implication of a market-to-book ratio greater than 1.0?**

10   A.    Yes. A market-to-book ratio greater than 1.0 implies that investors expect an entity to  
11   earn an accounting/book return on its equity that exceeds its cost of equity. The  
12   relationship between required returns and expected cash flows is readily observed in the  
13   fixed securities market. For example, assume an entity contemplating issuance of bonds  
14   with a face value of \$10 million at either 6 percent or 8 percent and, thus, paying annual  
15   interest of \$600,000 or \$800,000, respectively. Regardless of investors' required return on  
16   similar bonds, investors will be willing to pay more for the bonds if issued at 8 percent  
17   than if the bonds are issued at 6 percent. For example, if the current interest rate required  
18   by investors is 6 percent, then they would bid \$10 million for the 6 percent bonds and  
19   more than \$10 million for the 8 percent bonds. Similarly, if equity investors require a 9  
20   percent return and expect an entity to earn accounting/book returns of 13 percent, the  
21   market will bid up the price of the entity's stock to provide the required return of 9  
22   percent.

1   **Q.    How has Staff generally recognized a market-to-book ratio exceeding 1.0 in its cost of**  
2   **equity analyses in recent years?**

3   A.   Staff has assumed that investors expect the market-to-book ratio to remain greater than  
4       1.0. Given that assumption, Staff has added a stock financing growth rate (vs) term to the  
5       retention ratio (br) term to calculate its historical and projected sustainable growth rates.  
6

7   **Q.    Do the historical and projected sustainable growth rates Staff uses to develop its**  
8   **DCF cost of equity in this case continue to include a stock financing growth rate**  
9   **term?**

10  A.   Yes.  
11

12  **Q.    What is stock financing growth?**

13  A.   Stock financing growth is the growth in an entity's dividends due to the sale of stock by  
14       that entity. Stock financing growth is a concept derived by Myron Gordon and discussed  
15       in his book *The Cost of Capital to a Public Utility*.<sup>8</sup> Stock financing growth is the product  
16       of the fraction of the funds raised from the sale of stock that accrues to existing  
17       shareholders (v) and the fraction resulting from dividing the funds raised from the sale of  
18       stock by the existing common equity (s).  
19

---

<sup>8</sup> Gordon, Myron J. *The Cost of Capital to a Public Utility*. MSU Public Utilities Studies, Michigan, 1974. pp 31-35.

1 **Q. What is the mathematical formula for the stock financing growth rate?**

2 A. The mathematical formula for stock financing growth is:

Equation 4:

$$\text{Stock Financing Growth} = \nu s$$

where:  $\nu$  = Fraction of the funds raised from the sale of stock that accrues  
to existing shareholders

$s$  = Funds raised from the sale of stock as a fraction of the existing  
common equity

3

4 **Q. How is the variable  $\nu$  presented above calculated?**

5 A. Variable  $\nu$  is calculated as follows:

Equation 5:

$$\nu = 1 - \left( \frac{\text{book value}}{\text{market value}} \right)$$

6

7 For example, assume that a share of stock has a \$30 book value and is selling for \$45.

8 Then, to find the value of  $\nu$ , the formula is applied:

$$\nu = 1 - \left( \frac{30}{45} \right)$$

9 In this example,  $\nu$  is equal to 0.33.

10

11 **Q. How is the variable  $s$  presented above calculated?**

12 A. Variable  $s$  is calculated as follows:

13 Equation 6:

14

15

$$s = \frac{\text{Funds raised from the issuance of stock}}{\text{Total existing common equity before the issuance}}$$



1 For example, assume that an entity has \$150 in existing equity, and it sells \$30 of stock.

2 Then, to find the value of  $s$ , the formula is applied:

$$s = \left( \frac{30}{150} \right)$$

3 In this example,  $s$  is equal to 20.0 percent.

4  
5 **Q. What is the  $vs$  term when the market-to-book ratio is equal to 1.0?**

6 A. A market-to-book ratio of 1.0 reflects that investors expect an entity to earn a  
7 book/accounting return on their equity investment equal to the cost of equity. When the  
8 market-to-book ratio is equal to 1.0, none of the funds raised from the sale of stock by the  
9 entity accrues to the benefit of existing shareholders, i.e., the term  $v$  is equal to zero (0.0).  
10 Consequently, the  $vs$  term is also equal to zero (0.0). When stock financing growth is  
11 zero, dividend growth depends solely on the  $br$  term.

12  
13 **Q. What is the effect of the  $vs$  term when the market-to-book ratio is greater than 1.0?**

14 A. A market-to-book ratio greater than 1.0 reflects that investors expect an entity to earn a  
15 book/accounting return on their equity investment greater than the cost of equity.  
16 Equation 5 shows that, when the market-to-book ratio is greater than 1.0, the  $v$  term is also  
17 greater than zero. The excess by which new shares are issued and sold over book value  
18 per share of outstanding stock is a contribution that accrues to existing stockholders in the  
19 form of a higher book value. The resulting higher book value leads to higher expected  
20 earnings and dividends. Continued growth from the  $vs$  term is dependent upon the  
21 continued issuance and sale of additional shares at a price that exceeds book value per  
22 share.

1     **Q.     What *vs* estimate did Staff calculate from its analysis of the sample water utilities?**

2     A.     Staff estimated an average stock financing growth of 2.0 percent for the sample water  
3             utilities, as shown in Schedule JAC-6.

4  
5     **Q.     What would occur if an entity had a market-to-book ratio greater than 1.0 as a result**  
6             **of investors expecting earnings to exceed its cost of equity, and subsequently**  
7             **experienced newly-authorized rates equal only to its cost of equity?**

8     A.     *Ceteris paribus*, holding all other factors constant, one would expect market forces to  
9             move the company's stock price lower, closer to a market-to-book ratio of 1.0, to reflect  
10            investor expectations of reduced expected future cash flows.

11  
12    **Q.     If the average market-to-book ratio of Staff's sample water utilities were to fall to 1.0**  
13             **due to authorized ROEs equaling their cost of equity, would inclusion of the *vs* term**  
14             **be necessary to Staff's constant-growth DCF analysis?**

15    A.     No. As discussed above, when the market-to-book ratio is equal to 1.0, none of the funds  
16             raised from the sale of stock by the entity accrues to the benefit of existing shareholders  
17             because the *v* term equals to zero and, consequently, the *vs* term also equals zero. When  
18             the market-to-book ratio equals 1.0, dividend growth depends solely on the *br* term.  
19             Staff's inclusion of the *vs* term assumes that the market-to-book ratio continues to exceed  
20             1.0 and that the water utilities will continue to issue and sell stock at prices above book  
21             value with the effect of benefitting existing shareholders.

22  
23    **Q.     What are Staff's historical and projected sustainable growth rates?**

24    A.     Staff's estimated historical sustainable growth rate is 4.9 percent based on an analysis of  
25             earnings retention for the sample water companies. Staff's projected sustainable growth

1 rate is 6.5 percent based on retention growth projected by *Value Line*. Schedule JAC-6  
2 presents Staff's estimates of the sustainable growth rate.

3  
4 **Q. What is Staff's expected infinite annual growth rate in dividends?**

5 A. Staff's expected dividend growth rate (g) is 5.0 percent, which is the average of historical  
6 and projected DPS, EPS, and sustainable growth estimates. Staff's calculation of the  
7 expected infinite annual growth rate in dividends is shown in Schedule JAC-8.

8  
9 **Q. What is Staff's constant-growth DCF estimate for the sample utilities?**

10 A. Staff's constant-growth DCF estimate is 8.1 percent, as shown in Schedule JAC-3.

11  
12 ***The Multi-Stage DCF***

13 **Q. Why did Staff implement the multi-stage DCF model to estimate Cordes Lakes' cost**  
14 **of equity?**

15 A. Staff generally uses the multi-stage DCF model to consider the assumption that dividends  
16 may not grow at a constant rate. The multi-stage DCF uses two stages of growth, the first  
17 stage (near-term) has a four-year duration, followed by a second stage (long-term) of  
18 constant growth.

1    **Q.    What is the mathematical formula for the multi-stage DCF?**

2    **A.    The multi-stage DCF formula is shown in the following equation:**

Equation 7 :

$$P_0 = \sum_{t=1}^n \frac{D_t}{(1+K)^t} + \frac{D_n(1+g_n)}{K-g_n} \left[ \frac{1}{(1+K)} \right]^n$$

Where :  $P_0$  = current stock price

$D_t$  = dividends expected during stage 1

$K$  = cost of equity

$n$  = years of non - constant growth

$D_n$  = dividend expected in year n

$g_n$  = constant rate of growth expected after year n

3

4    **Q.    What steps did Staff take to implement its multi-stage DCF cost of equity model?**

5    **A.** First, Staff projected future dividends for each of the sample water utilities using near-  
6    term and long-term growth rates. Second, Staff calculated the rate (cost of equity) which  
7    equates the present value of the forecasted dividends to the current stock price for each of  
8    the sample water utilities. Lastly, Staff calculated an overall sample average cost of  
9    equity estimate.

10

11    **Q.    How did Staff calculate near-term (stage-1) growth?**

12    **A.** The stage-1 growth rate is based on *Value Lines*'s projected dividends for the next twelve  
13    months, when available, and on the average dividend growth (g) rate of 5.0 percent,  
14    calculated in Staff's constant DCF analysis for the remainder of the stage.

1 **Q. How did Staff estimate long-term (stage-2) growth?**

2 A. Staff calculated the stage-2 growth rate using the arithmetic mean rate of growth in Gross  
3 Domestic Product ("GDP") from 1929 to 2011.<sup>9</sup> Using the GDP growth rate assumes that  
4 the water utility industry is expected to grow at the same rate as the overall economy.

5  
6 **Q. What is the historical GDP growth rate that Staff used to estimate stage-2 growth?**

7 A. Staff used 6.5 percent to estimate the stage-2 growth rate.  
8

9 **Q. What is Staff's multi-stage DCF estimate for the sample utilities?**

10 A. Staff's multi-stage DCF estimate is 9.5 percent, as shown in Schedule JAC-3.  
11

12 **Q. What is Staff's overall DCF estimate for the sample utilities?**

13 A. Staff's overall DCF estimate is 8.8 percent. Staff calculated the overall DCF estimate by  
14 averaging the constant growth DCF (8.1%) and multi-stage DCF (9.5%) estimates, as  
15 shown in Schedule JAC-3.  
16

17 **Capital Asset Pricing Model**

18 **Q. Please describe the CAPM.**

19 A. The CAPM is used to determine the prices of securities in a competitive market. The  
20 CAPM model describes the relationship between a security's investment risk and its  
21 market rate of return. Under the CAPM, an investor requires the expected return of a  
22 security to equal the rate on a risk-free security plus a risk premium. If the investor's  
23 expected return does not meet or beat the required return, the investment is not  
24 economically justified. The model also assumes that investors will sufficiently diversify

---

<sup>9</sup> www.bea.doc.gov.

1 their investments to eliminate any non-systematic or unique risk.<sup>10</sup> In 1990, Professors  
2 Harry Markowitz, William Sharpe, and Merton Miller earned the Nobel Prize in  
3 Economic Sciences for their contribution to the development of the CAPM.

4  
5 **Q. Did Staff use the same sample water utilities in its CAPM and DCF cost of equity**  
6 **estimation analyses?**

7 A. Yes. Staff's CAPM cost of equity estimation analysis uses the same sample water  
8 companies as its DCF cost of equity estimation analysis.

9  
10 **Q. What is the mathematical formula for the CAPM?**

11 A. The mathematical formula for the CAPM is:  
12

Equation 8:

$$K = R_f + \beta (R_m - R_f)$$

where:  $R_f$  = risk free rate  
 $R_m$  = return on market  
 $\beta$  = beta  
 $R_m - R_f$  = market risk premium  
 $K$  = expected return

13  
14 The equation shows that the expected return (K) on a risky asset is equal to the risk-free  
15 interest rate ( $R_f$ ) plus the product of the market risk premium ( $R_m - R_f$ ) multiplied by beta  
16 ( $\beta$ ) where beta represents the riskiness of the investment relative to the market.

---

<sup>10</sup> The CAPM makes the following assumptions: 1) single holding period; 2) perfect and competitive securities market; 3) no transaction costs; 4) no restrictions on short selling or borrowing; 5) the existence of a risk-free rate; and 6) homogeneous expectations.

1     **Q.     What is the risk-free rate?**

2     A.     The risk-free rate is the rate of return of an investment free of default risk.

3  
4     **Q.     What does Staff use as surrogates to represent estimations of the risk-free rates of**  
5     **interest in its historical and current market risk premium CAPM methods?**

6     A.     Staff uses separate parameters as surrogates for the estimations of the risk-free rates of  
7     interest for the historical market risk premium CAPM cost of equity estimation and the  
8     current market risk premium CAPM cost of equity estimation. Staff uses the average of  
9     three (5-, 7-, and 10-year) intermediate-term U.S. Treasury securities' spot rates in its  
10    historical market risk premium CAPM cost of equity estimation, and the 30-year U.S.  
11    Treasury bond spot rate in its current market risk premium CAPM cost of equity  
12    estimation. Rates on U.S. Treasuries are largely verifiable and readily available.

13  
14    **Q.     What does beta measure?**

15    A.     Beta is a measure of a security's price volatility, or systematic risk, relative to the market  
16    as a whole. Since systematic risk cannot be diversified away, it is the only risk that is  
17    relevant when estimating a security's required return. Using a baseline market beta  
18    coefficient of 1.0, a security having a beta value less than 1.0 will be less volatile (i.e., less  
19    risky) than the market. A security with a beta value greater than 1.0 will be more volatile  
20    (i.e., more risky) than the market.

21  
22    **Q.     How did Staff estimate Cordes Lakes' beta?**

23    A.     Staff used the average of the *Value Line* betas for the sample water utilities as a proxy for  
24    the Company's beta. Schedule JAC-7 shows the *Value Line* betas for each of the sample  
25    water utilities. The 0.71 average beta coefficient for the sample water utilities is Staff's

1 estimated beta value for Cordes Lakes. A security with a beta value of 0.71 has less  
2 volatility than the market.

3  
4 **Q. What is the market risk premium ( $R_m - R_f$ )?**

5 A. The market risk premium is the expected return on the market, minus the risk-free rate.  
6 Simplified, it is the return an investor expects as compensation for market risk.

7  
8 **Q. What did Staff use for the market risk premium?**

9 A. Staff uses separate calculations for the market risk premium in its historical and current  
10 market risk premium CAPM methods.

11  
12 **Q. How did Staff calculate an estimate for the market risk premium in its historical  
13 market risk premium CAPM method?**

14 A. Staff uses the intermediate-term government bond income returns published in the  
15 Ibbotson Associates' *Stocks, Bonds, Bills, and Inflation 2012 Yearbook* to calculate the  
16 historical market risk premium. Ibbotson Associates calculates the historical risk  
17 premium by averaging the historical arithmetic differences between the S&P 500 and the  
18 intermediate-term government bond income returns for the period 1926-2011. Staff's  
19 historical market risk premium estimate is 7.2 percent, as shown in Schedule JAC-3.

20  
21 **Q. How did Staff calculate an estimate for the market risk premium in its current  
22 market risk premium CAPM method?**

23 A. Staff solves equation 8 above to arrive at a market risk premium using a DCF-derived  
24 expected return (K) of 12.87 ( $2.2 + 10.67^{11}$ ) percent using the expected dividend yield (2.2  
25 percent over the next twelve months) and the annual per share growth rate (10.67 percent)

---

<sup>11</sup> The three to five year price appreciation is 50%.  $1.50^{0.25} - 1 = 10.67\%$ .



1 that *Value Line* projects for all dividend-paying stocks under its review<sup>12</sup> along with the  
2 current long-term risk-free rate (30-year Treasury note at 3.02 percent) and the market's  
3 average beta of 1.0. Staff calculated the current market risk premium as 9.8 percent,<sup>13</sup> as  
4 shown in Schedule JAC-3.

5  
6 **Q. What is the result of Staff's historical market risk premium CAPM and current**  
7 **market risk premium CAPM cost of equity estimations for the sample utilities?**

8 A. Staff's cost of equity estimates are 6.4 percent using the historical market risk premium  
9 CAPM and 10.0 percent using the current market risk premium CAPM.

10  
11 **Q. What is Staff's overall CAPM estimate for the sample utilities?**

12 A. Staff's overall CAPM cost of equity estimate is 8.2 percent which is the average of the  
13 historical market risk premium CAPM (6.4 percent) and the current market risk premium  
14 CAPM (10.0 percent) estimates, as shown in Schedule JAC-3.

15  
16 **VII. SUMMARY OF STAFF'S COST OF EQUITY ANALYSIS**

17 **Q. What is the result of Staff's constant-growth DCF analysis to estimate the cost of**  
18 **equity for the sample water utilities?**

19 A. Schedule JAC-3 shows the result of Staff's constant-growth DCF analysis. The result of  
20 Staff's constant-growth DCF analysis is as follows:

21  
22 
$$k = 3.1\% + 5.0\%$$

23  
24 
$$k = 8.1\%$$

25  

---

<sup>12</sup> January 25, 2013 issue date.

<sup>13</sup>  $12.87\% = 3.02\% + (1) (9.8\%)$ .

Staff's constant-growth DCF estimate of the cost of equity for the sample water utilities is 8.1 percent.

**Q. What is the result of Staff's multi-stage DCF analysis to estimate of the cost of equity for the sample utilities?**

**A.** Schedule JAC-9 shows the result of Staff's multi-stage DCF analysis. The result of Staff's multi-stage DCF analysis is:

| Company               | Equity Cost<br>Estimate (k) |
|-----------------------|-----------------------------|
| American States Water | 9.0%                        |
| California Water      | 9.8%                        |
| Aqua America          | 9.0%                        |
| Connecticut Water     | 9.7%                        |
| Middlesex Water       | 10.3%                       |
| SJW Corp              | <u>9.2%</u>                 |
| Average               | 9.5%                        |

Staff's multi-stage DCF estimate of the cost of equity for the sample water utilities is 9.5 percent.

**Q. What is Staff's overall DCF estimate of the cost of equity for the sample utilities?**

**A.** Staff's overall DCF estimate of the cost of equity for the sample utilities is 8.8 percent. Staff calculated an overall DCF cost of equity estimate by averaging Staff's constant growth DCF (8.1 percent) and Staff's multi-stage DCF (9.5 percent) estimates, as shown in Schedule JAC-3.

1 **Q. What is the result of Staff's historical market risk premium CAPM analysis to**  
2 **estimate of the cost of equity for the sample utilities?**

3 A. Schedule JAC-3 shows the result of Staff's CAPM analysis using the historical risk  
4 premium estimate. The result is as follows:

5  
6 
$$k = 1.3\% + 0.71 * 7.2\%$$

7 
$$k = 6.4\%$$
  
8

9 Staff's CAPM estimate (using the historical market risk premium) of the cost of equity to  
10 the sample water utilities is 6.4 percent.  
11

12 **Q. What is the result of Staff's current market risk premium CAPM analysis to**  
13 **estimate the cost of equity for the sample utilities?**

14 A. Schedule JAC-3 shows the result of Staff's CAPM analysis using the current market risk  
15 premium estimate. The result is:

16 
$$k = 3.0\% + 0.71 * 9.8\%$$

17 
$$k = 10.0\%$$
  
18

19 Staff's CAPM estimate (using the current market risk premium) of the cost of equity to the  
20 sample water utilities is 10.0 percent.  
21

1 **Q. What is Staff's overall CAPM estimate of the cost of equity for the sample utilities?**

2 A. Staff's overall CAPM estimate for the sample utilities is 8.2 percent. Staff's overall  
3 CAPM estimate is the average of the historical market risk premium CAPM (6.4 percent)  
4 and the current market risk premium CAPM (10.0 percent) estimates, as shown in  
5 Schedule JAC-3.

6  
7 **Q. Please summarize the results of Staff's cost of equity analysis for the sample utilities.**

8 A. The following table shows the results of Staff's cost of equity analysis:

9 **Table 2**

| Method                 | Estimate    |
|------------------------|-------------|
| Average DCF Estimate   | 8.8%        |
| Average CAPM Estimate  | 8.2%        |
| <b>Overall Average</b> | <b>8.5%</b> |

10 Staff's average estimate of the cost of equity to the sample water utilities is 8.5 percent.

11  
12 **VIII. FINAL COST OF EQUITY ESTIMATES FOR CORDES LAKES**

13 **Q. Please compare Cordes Lakes' capital structure to that of the six sample water**  
14 **companies.**

15 A. The average capital structure for the sample water utilities is composed of 48.4 percent  
16 equity and 51.6 percent debt, as shown in Schedule JAC-4. Cordes Lakes' capital  
17 structure is composed of 100.0 percent equity and 0.0 percent debt. In this case, since  
18 Cordes Lakes' capital structure contains no debt, its stockholders have no exposure to  
19 financial risk. In contrast, the average sample water utilities' capital structure is more  
20 highly leveraged, and thus common stock shareholders in those sample companies are  
21 exposed to financial risk.

1     **Q.     Does Cordes Lakes' reduced financial risk affect its cost of equity?**

2     A.     Yes. As previously discussed, financial risk is a component of market risk and investors  
3           require compensation for market risk. Since Cordes Lakes' financial risk exposure is less  
4           than that of the average sample water companies, its cost of equity is lower than that of the  
5           sample water companies. However, Staff is not recommending a downward financial risk  
6           adjustment in this proceeding, as the Company does not have access to the capital  
7           markets.

8  
9     **Q.     Did Staff consider factors other than the results of its technical models in its cost of**  
10    **equity analysis?**

11    A.     Yes. In consideration of the relatively uncertain status of the economy and the market that  
12           currently exists, Staff is proposing an Economic Assessment Adjustment to the cost of  
13           equity. In this case, Staff recommends a 60 basis point (0.6 percent) upward Economic  
14           Assessment Adjustment, as shown in Schedule JAC-3.

15  
16    **Q.     What is Staff's ROE estimate for Cordes Lakes?**

17    A.     Staff determined an ROE estimate of 9.1 percent for Cordes Lakes based on cost of equity  
18           estimates for the sample companies of 8.5 percent for both the CAPM and the DCF and  
19           adoption of a 60 basis point upward Economic Assessment Adjustment, as shown in  
20           Schedule JAC-3.

**IX. RATE OF RETURN RECOMMENDATION**

**Q. What overall rate of return did Staff determine for Cordes Lakes?**

**A.** Staff determined a 9.1 percent ROR for the Company, as shown in Schedule JAC-1 and the following table:

**Table 3**

|                | Weight | Cost | Weighted<br>Cost |
|----------------|--------|------|------------------|
| Long-term Debt | 0.0%   | 0.0% | 0.0%             |
| Common Equity  | 100.0% | 9.1% | <u>9.1%</u>      |
| Overall ROR    |        |      | <u>9.1%</u>      |

**X. STAFF RESPONSE TO COMPANY'S PROPOSED COST OF CAPITAL**

**Q. Please summarize the Company's cost of capital request.**

**A.** The Company's application does not present testimony pertaining to the cost of capital. Schedule A-1 of the application shows the requested overall rate of return as 8.0 percent. Schedule D-1 "Summary of Cost of Capital" of the application shows a capital structure comprised of only \$18,170 for customer deposits at a 6.0 percent cost rate. Schedule E-1 "Comparative Balance Sheet" of the application shows \$651,634 for total shareholders' equity. Staff has calculated the capital structure implied by the Company's application comprised of 2.7 percent debt and 97.3 percent equity and has also calculated the implied ROE of 8.1 percent. As discussed in Section IV above, the Commission has a long-standing practice of treating customer deposits as a deduction in the calculation of rate base as opposed to as a component of the capital structure, and Staff advocates that the Commission continue its usual practice in this case. Thus, the Company has no debt in its capital structure. In summary, the Company has supported neither the capital structure nor the cost of equity implied in its application, and those proposals should be rejected.

1    **XI.    CONCLUSION**

2    **Q.    Please summarize Staff's recommendations.**

3    A.    Staff recommends that the Commission adopt a 9.1 percent overall rate of return<sup>14</sup> for the  
4        Company based on a capital structure composed of 0.0 percent debt and 100.0 percent  
5        equity.

6  
7    **Q.    Does this conclude your direct testimony?**

8    A.    Yes, it does.

---

<sup>14</sup> Sum of cost of equity estimate (8.5%) and economic assessment adjustment (0.6%).

**Cordes Lakes Cost of Capital Calculation**  
**Capital Structure**  
**And Weighted Average Cost of Capital**  
**Staff Recommended and Company Proposed**

| [A]                              | [B]               | [C]         | [D]                  |
|----------------------------------|-------------------|-------------|----------------------|
| <u>Description</u>               | <u>Weight (%)</u> | <u>Cost</u> | <u>Weighted Cost</u> |
| Staff Recommended Structure      |                   |             |                      |
| Debt                             | 0.0%              | 0.0%        | 0.0%                 |
| Common Equity                    | 100.0%            | 9.1%        | 9.1%                 |
| Weighted Average Cost of Capital |                   |             | 9.1%                 |
| Company Proposed Structure       |                   |             |                      |
| Debt                             | 2.7%              | 6.0%        | 0.2%                 |
| Common Equity                    | 97.3%             | 8.1%        | 7.8%                 |
| Weighted Average Cost of Capital |                   |             | 8.0%                 |

[D] : [B] x [C]

Supporting Schedules: JAC-3 and JAC-4.

Note: Schedule D-1 filed in the Company's application reflects a test year capital structure consisting only of \$18,170 of Service Deposit debt at a cost of 6 percent. The above Company proposed capital structure includes this debt component, and common equity of \$651,634, representing test year stockholder's equity as reported in the Company's Schedule E-1 Comparative Balance Sheet. Schedule A-1 of the Company's application shows 8.0% as the requested rate of return.



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Cordes Lakes Cost of Capital Calculation  
Final Cost of Equity Estimates  
Sample Water Utilities

| [A]   | [B]   | [C]                  | [D] | [E]               |
|---|-------|----------------------|-----|-------------------|
| <b>DCF Method</b>                           |       |                      |     |                   |
| Constant Growth DCF Estimate                |       | $D/P_0$ <sup>1</sup> | +   | $g$ <sup>2</sup>  |
| Multi-Stage DCF Estimate                    |       | 3.1%                 | +   | 5.0%              |
| Average DCF Estimate                        |       |                      | =   | $k$               |
|   |       |                      | =   | 8.1%              |
|   |       |                      | =   | 9.5%              |
|   |       |                      | =   | 8.8%              |
| <b>CAPM Method</b>                          |       |                      |     |                   |
| Historical Market Risk Premium <sup>3</sup> | $R_f$ | $\beta$ <sup>5</sup> | x   | $(R_p)$           |
| Current Market Risk Premium <sup>4</sup>    | 1.3%  | 0.71                 | x   | 7.2% <sup>6</sup> |
| Average CAPM Estimate                       | 3.0%  | 0.71                 | x   | 9.8% <sup>7</sup> |
|   |       |                      | =   | $k$               |
|   |       |                      | =   | 6.4%              |
|   |       |                      | =   | 10.0%             |
|   |       |                      | =   | 8.2%              |
| Average of Overall Cost of Equity Estimates |       |                      |     |                   |
| Economic Assessment Adjustment              |       |                      |     |                   |
| Sub-Total                                   |       |                      |     |                   |
| Financial risk adjustment                   |       |                      |     |                   |
| <b>ROE</b>                                  |       |                      |     |                   |
|   |       |                      |     | 8.5%              |
|   |       |                      |     | 0.6%              |
|   |       |                      |     | 9.1%              |
|   |       |                      |     | 0.0%              |
|   |       |                      |     | 9.1%              |

1 MSN Money and Value Line

2 Schedule JAC-8

3 Risk-free rate (Rf) for 5, 7, and 10 year Treasury rates from the U.S. Treasury Department at [www.ustreas.gov](http://www.ustreas.gov)4 Risk-free rate (Rf) for 30 Year Treasury bond rate from the U.S. Treasury Department at [www.ustreas.gov](http://www.ustreas.gov)

5 Value Line

6 Historical Market Risk Premium (Rp) calculated from Ibbotson Associates SBBI 2012 Yearbook data

7 Testimony

Cordes Lakes Cost of Capital Calculation  
Average Capital Structure of Sample Water Utilities

| [A]                                     | [B]         | [C]                  | [D]          |
|---|-------------|----------------------|--------------|
| <u>Company</u>                          | <u>Debt</u> | <u>Common Equity</u> | <u>Total</u> |
| American States Water                   | 46.0%       | 54.0%                | 100.0%       |
| California Water                        | 53.3%       | 46.7%                | 100.0%       |
| Aqua America                            | 53.9%       | 46.1%                | 100.0%       |
| Connecticut Water                       | 57.1%       | 42.9%                | 100.0%       |
| Middlesex Water                         | 43.3%       | 56.7%                | 100.0%       |
| SJW Corp                                | 55.7%       | 44.3%                | 100.0%       |
| Average Sample Water Utilities          | 51.6%       | 48.4%                | 100.0%       |
| Cordes Lakes - Actual Capital Structure | 0.0%        | 100.0%               | 100.0%       |

Source:

Sample Water Companies from Value Line

Cordes Lakes Cost of Capital Calculation  
Growth in Earnings and Dividends  
Sample Water Utilities

| [A]                            | [B]  | [C]   | [D]   | [E]  |
|--------------------------------|--|---|---|--|
| Company                        | Dividends<br>Per Share<br>2003 to 2012<br><u>DPS<sup>1,2</sup></u> | Dividends<br>Per Share<br>Projected<br><u>DPS<sup>1,3</sup></u> | Earnings<br>Per Share<br>2002 to 2011<br><u>EPS<sup>1</sup></u> | Earnings<br>Per Share<br>Projected<br><u>EPS<sup>1</sup></u> |
| American States Water          | 3.9%   | 5.9%  | 5.1%  | 4.7%   |
| California Water               | 1.2%   | 3.4%  | 6.2%  | 8.6%   |
| Aqua America                   | 7.7%   | 4.5%  | 7.3%  | 5.6%   |
| Connecticut Water              | 1.7%   | 3.5%  | 0.4%  | 9.1%   |
| Middlesex Water                | 1.7%   | 1.9%  | 2.4%  | 8.3%   |
| SJW Corp                       | 4.4%   | 3.0%  | 3.7%  | 5.5%   |
| Average Sample Water Utilities | 3.4%   | 3.7%  | 4.2%  | 7.0%   |

<sup>1</sup> Value Line

<sup>2</sup> Value Line -- Ten-year historical dividend growth updated from 2003-2012 as it is known and measurable.

<sup>3</sup> Value Line -- Projected DPS growth covers the four-year period, 2012-2016.

Cordes Lakes Cost of Capital Calculation  
Sustainable Growth  
Sample Water Utilities

| [A]                            | [B]                                       | [C]                                    | [D]                                | [E]  | [F]   |
|--------------------------------|---|--|------------------------------------|--|---|
|                                | Retention<br>Growth<br>2002 to 2011<br>br | Retention<br>Growth<br>Projected<br>br | Stock<br>Financing<br>Growth<br>vs | Sustainable<br>Growth<br>2002 to 2011<br>br + vs | Sustainable<br>Growth<br>Projected<br>br + vs |
| <u>Company</u>                 |   |  |                                    |  |   |
| American States Water          | 3.6%                                      | 5.3%                                   | 2.5%                               | 6.1%   | 7.8%  |
| California Water               | 2.2%                                      | 4.8%                                   | 2.2%                               | 4.4%   | 7.0%  |
| Aqua America                   | 4.4%                                      | 5.2%                                   | 2.3%                               | 6.7%   | 7.6%  |
| Connecticut Water              | 2.2%                                      | No Projection                          | 1.0%                               | 3.2%   | No Projection                                 |
| Middlesex Water                | 1.3%                                      | 3.3%                                   | 3.7%                               | 5.0%   | 7.0%  |
| SJW Corp                       | <u>3.7%</u>                               | <u>3.2%</u>                            | <u>0.1%</u>                        | <u>3.8%</u>                                      | <u>3.3%</u>                                   |
| Average Sample Water Utilities | 2.9%                                      | 4.4%                                   | 2.0%                               | 4.9%   | 6.5%  |

[B]: Value Line  
[C]: Value Line  
[D]: Value Line and MSN Money  
[E]: [B]+[D]  
[F]: [C]+[D]

Cordes Lakes Cost of Capital Calculation  
Selected Financial Data of Sample Water Utilities

| [A]                   | [B]    | [C]                     | [D]        | [E]            | [F]                | [G]         |
|-----------------------|--------|-------------------------|------------|----------------|--------------------|-------------|
| Company               | Symbol | Spot Price<br>1/23/2013 | Book Value | Mkt To<br>Book | Value Line<br>Beta | Raw<br>Beta |
| American States Water | AWR    | 51.03                   | 22.26      | 2.3            | 0.70               | 0.52        |
| California Water      | CWT    | 19.35                   | 11.40      | 1.7            | 0.65               | 0.45        |
| Aqua America          | WTR    | 26.99                   | 9.49       | 2.8            | 0.60               | 0.37        |
| Connecticut Water     | CTWS   | 29.76                   | 13.67      | 2.2            | 0.75               | 0.60        |
| Middlesex Water       | MSEX   | 19.52                   | 11.97      | 1.6            | 0.70               | 0.52        |
| SJW Corp              | SJW    | 26.77                   | 15.36      | 1.7            | 0.85               | 0.75        |
| Average               |        |                         |            | 2.1            | 0.71               | 0.53        |

[C]: Msn Money

[D]: Value Line

[E]: [C] / [D]

[F]: Value Line

[G]:  $(-0.35 + [F]) / 0.67$

Cordes Lakes Cost of Capital Calculation  
Calculation of Expected Infinite Annual Growth in Dividends  
Sample Water Utilities

| [A]   | [B]         |
|---|-------------|
| <u>Description</u>                                | <u>g</u>    |
| DPS Growth - Historical <sup>1</sup>              | 3.4%        |
| DPS Growth - Projected <sup>1</sup>               | 3.7%        |
| EPS Growth - Historical <sup>1</sup>              | 4.2%        |
| EPS Growth - Projected <sup>1</sup>               | 7.0%        |
| Sustainable Growth - Historical <sup>2</sup>      | 4.9%        |
| <u>Sustainable Growth - Projected<sup>2</sup></u> | <u>6.5%</u> |
| Average   | <b>5.0%</b> |

<sup>1</sup> Schedule JAC-5

<sup>2</sup> Schedule JAC-6

Cordes Lakes Cost of Capital Calculation  
Multi-Stage DCF Estimates  
Sample Water Utilities

| [A]                   | [B]   | [C]  | [D]   | [E]   | [F]   | [H]                                      | [I]  |
|-----------------------|---|--|-------|-------|-------|--|--|
| Company               | Current Mkt.<br>Price ( $P_0$ ) <sup>1</sup><br>1/23/2013 | Projected Dividends <sup>2</sup> (Stage 1 growth)<br>( $D_t$ ) |       |       |       | Stage 2 growth <sup>3</sup><br>( $g_n$ ) | Equity Cost<br>Estimate ( $K$ ) <sup>4</sup> |
| American States Water | 51.0  | $d_1$  | $d_2$ | $d_3$ | $d_4$ |  |  |
| California Water      | 19.4  | 1.30   | 1.36  | 1.43  | 1.50  | 6.5%                                     | 9.0%   |
| Aqua America          | 27.0  | 0.66   | 0.69  | 0.73  | 0.76  | 6.5%                                     | 9.8%   |
| Connecticut Water     | 29.8  | 0.69   | 0.73  | 0.76  | 0.80  | 6.5%                                     | 9.0%   |
| Middlesex Water       | 19.5  | 0.98   | 1.03  | 1.08  | 1.14  | 6.5%                                     | 9.7%   |
| SJW Corp              | 26.8  | 0.77   | 0.81  | 0.85  | 0.89  | 6.5%                                     | 10.3%  |
|                       |   | 0.75   | 0.78  | 0.82  | 0.86  | 6.5%                                     | 9.2%   |
|                       |   |  |       |       |       | Average                                  | 9.5%   |

$$P_0 = \sum_{t=1}^n \frac{D_t}{(1+K)^t} + \frac{D_n(1+g_n)}{K - g_n} \left[ \frac{1}{(1+K)} \right]^n$$

Where :  $P_0$  = current stock price

$D_t$  = dividends expected during stage 1

$K$  = cost of equity

$n$  = years of non - constant growth

$D_n$  = dividend expected in year n

$g_n$  = constant rate of growth expected after year n

<sup>1</sup> [B] see Schedule JAC-7

<sup>2</sup> Derived from Value Line Information

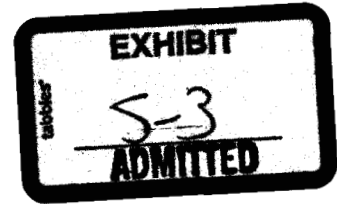
<sup>3</sup> Average annual growth in GDP 1923 - 2011 in current dollars.

<sup>4</sup> Internal Rate of Return of Projected Dividends



BEFORE THE ARIZONA CORPORATION COMMISSION

BOB STUMP  
Chairman  
GARY PIERCE  
Commissioner  
BRENDA BURNS  
Commissioner  
SUSAN BITTER SMITH  
Commissioner  
BOB BURNS  
Commissioner



IN THE MATTER OF THE APPLICATION OF )  
CORDES LAKES WATER COMPANY FOR )  
AN INCREASE IN ITS RATES )  
\_\_\_\_\_ )

DOCKET NO W-02060A-12-0356

SURREBUTTAL  
TESTIMONY  
OF  
JOHN A. CASSIDY  
PUBLIC UTILITIES ANALYST  
UTILITIES DIVISION  
ARIZONA CORPORATION COMMISSION

MAY 17, 2013

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### SURREBUTTAL SCHEDULES

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**EXECUTIVE SUMMARY  
CORDES LAKES WATER COMPANY  
DOCKET NO. W-02060A-12-0356**

The Surrebuttal Testimony of Staff witness John A. Cassidy addresses the following issues:

Capital Structure – Staff continues to recommend that the Commission adopt a capital structure for Cordes Lakes Water Company (“Cordes Lakes” or “Company”) for this proceeding consisting of 0.0 percent debt and 100.0 percent equity.

Cost of Equity – Staff recommends that the Commission adopt a 9.0 percent return on equity (“ROE”) for the Company, a decrease from the 9.1 percent ROE Staff recommended in Direct Testimony. Staff’s estimated ROE for the Company is based on the average of its discounted cash flow method (“DCF”) and capital asset pricing model (“CAPM”) cost of equity methodology estimates for the sample companies of 8.1 percent for the CAPM and 8.7 percent for the DCF. Staff’s recommended ROE includes an upward economic assessment adjustment of 60 basis points.

Cost of Debt – Staff recommends that the Commission adopt a 0.0 percent cost of debt for the Company, as the Company has no debt in its capital structure.

Overall Rate of Return – Staff recommends that the Commission adopt a 9.0 percent overall rate of return, a decrease from the 9.1 percent ROE Staff recommended in Direct Testimony.

Company-Proposed Cost of Capital – The Company’s Rebuttal Testimony proposes a 10.55 percent ROE, an increase from the 8.1 percent ROE it requested in its initial filing. This request should be rejected because it is not based on comprehensive cost of capital analysis. The Company’s criticisms of Staff’s ROE recommendation reflect a fundamental misunderstanding of the ROE analysis applied to regulated utilities.

**I. INTRODUCTION**

**Q. Please state your name, occupation, and business address.**

A. My name is John A. Cassidy. I am a Public Utilities Analyst employed by the Arizona Corporation Commission ("Commission") in the Utilities Division ("Staff"). My business address is 1200 West Washington Street, Phoenix, Arizona 85007.

**Q. Are you the same John A. Cassidy who filed Direct Testimony in this case?**

A. Yes, I am.

**Q. What is the purpose of your Surrebuttal Testimony in this rate proceeding?**

A. The purpose of my Surrebuttal Testimony is to update Staff's cost of capital analysis and its recommendations regarding Cordes Lakes Water Company ("Cordes Lakes" or "Company") cost of capital, and to respond to the cost of capital Rebuttal Testimony of Company witness, Matthew J. Rowell ("Mr. Rowell's Rebuttal").

**Q. Please explain how Staff's Surrebuttal Testimony is organized.**

A. Staff's Surrebuttal Testimony is presented in four sections. Section I is this introduction. Section II discusses Staff's updated cost of capital analysis. Section III presents Staff's comments on the Rebuttal Testimony of the Company's cost of capital witness, Mr. Rowell. Lastly, Section IV presents Staff's recommendations.

**II. COST OF EQUITY AND OVERALL RATE OF RETURN**

**Q. Is Staff recommending a different capital structure for Cordes Lakes in its Surrebuttal Testimony than it did in Direct Testimony?**

A. No. Staff continues to recommend a capital structure consisting of 0.0 percent debt and 100.0 percent common equity.

1    **Q.    Has Staff updated its analysis concerning the Company's cost of equity ("COE")**  
2       **since filing Direct Testimony in this proceeding?**

3    A.    Yes. Staff updated its analysis to include more recent market data.  
4

5    **Q.    What is Staff's updated estimate for the COE?**

6    A.    Staff's updated estimate for the COE is 8.4 percent. This figure is derived from cost of  
7       equity estimates which range from 8.7 percent for the discounted cash flow ("DCF")  
8       method to 8.1 percent for the capital asset pricing model ("CAPM") estimation  
9       methodologies, as shown in Surrebuttal Schedule JAC-3. In direct testimony, Staff's  
10       preliminary COE estimate was 8.5 percent.  
11

12   **Q.    In its Surrebuttal Testimony, does Staff continue to recommend the 60 basis point**  
13       **(0.6 percent) upward economic assessment adjustment to Cordes Lakes' cost of**  
14       **equity that it recommended in its Direct Testimony?**

15   A.    Yes.  
16

17   **Q.    What ROE is Staff recommending for Cordes Lakes?**

18   A.    Staff recommends a 9.0 percent ROE. This figure represents Staff's updated 8.4 percent  
19       COE, derived from updated cost of equity estimates ranging from 8.7 percent for the DCF  
20       method to 8.1 percent for the CAPM estimation methodologies, and includes Staff's  
21       upward 60 basis point economic assessment adjustment.  
22

23   **Q.    Did Staff update its analysis concerning the Company's overall rate of return?**

24   A.    Yes, the updated analysis is supported by Surrebuttal Schedules JAC-1 to JAC-9.  
25

1 **Q. Does Staff's updated cost of equity analysis result in a change to Staff's weighted**  
2 **average cost of capital?**

3 A. Yes. Based upon its updated cost of equity analysis, Staff's weighted average cost of  
4 capital fell to 9.0 percent. In its Direct Testimony, Staff's weighted average cost of capital  
5 had been 9.1 percent.

6  
7 **Q. What overall rate of return is Staff recommending for Cordes Lakes?**

8 A. Staff recommends a 9.0 percent overall rate of return. Staff's recommendation is based on  
9 an ROE of 9.0 percent, a cost of debt of 0.0, and a capital structure consisting of 0.0  
10 percent debt and 100.0 percent common equity, as shown in Surrebuttal Schedule JAC-1.

11  
12 **III. STAFF RESPONSE TO COMPANY WITNESS MATTHEW J. ROWELL**

13 **Q. Please summarize the capital structure, cost of equity and overall rate of return**  
14 **proposed in Mr. Rowell's Rebuttal.**

15 A. Mr. Rowell's Rebuttal proposes a capital structure composed of 100 percent equity and a  
16 cost of equity of 10.55, which equates to a 10.55 percent overall rate of return.

17  
18 **Q. Did Mr. Rowell sponsor direct cost of capital testimony in this docket?**

19 A. No. Mr. Rowell was engaged by the Company to assist in the preparation of Rebuttal  
20 Testimony subsequent to the filing of Staff's Direct Testimony in this docket.

21

1 **Q. Is the capital structure proposed in Mr. Rowell's Rebuttal the same capital structure**  
2 **initially proposed by the Company?**

3 A. No. As filed, the Company's Application originally proposed a capital structure  
4 consisting of 97.3 percent equity and 2.7 percent debt. In his Rebuttal Testimony, Mr.  
5 Rowell adopts Staff's recommended 100.0 percent equity capital structure.<sup>1</sup>

6  
7 **Q. For purposes of his Rebuttal Testimony, did Mr. Rowell perform any formal cost of**  
8 **capital analysis to support his proposed 10.55 percent ROE?**

9 A. No. Mr. Rowell simply gives consideration to the 10.55 percent ROE awarded Arizona  
10 Water Company, Eastern Group ("AWC") in Decision No. 73736 (dated February 20,  
11 2013).<sup>2</sup>

12  
13 **Q. In his Rebuttal Testimony, does Mr. Rowell attempt to justify a 10.55 percent ROE**  
14 **for Cordes Lakes on the grounds that (like AWC's Eastern Group) the Company**  
15 **faces the need for substantial rehabilitation of older plant?**

16 A. Yes.<sup>3</sup>

17  
18 **Q. Does Staff consider Mr. Rowell's claim in this regard to have merit?**

19 A. No. In Direct Testimony filed by AWC witness Fredrick K. Schneider, it was established  
20 that installation of water mains in the AWC Eastern Group's Bisbee water system had  
21 begun in the late 1800s, and that the oldest water main still in service dated from 1901.<sup>4</sup>  
22 Furthermore, Mr. Schneider testified that based on AWC's current replacement rate, it  
23 would take over 170 years to replace the existing Bisbee water infrastructure.<sup>5</sup> In contrast,

---

<sup>1</sup> Rowell Rebuttal, p.3.

<sup>2</sup> Docket No. W-01445A-11-0310.

<sup>3</sup> Rowell Rebuttal, p. 8, lines 15-18.

<sup>4</sup> See Schneider Direct, Exhibit FKS-13 "Water Systems in the Eastern Group," p. 78 (Docket No. W-01445A-11-0310).

<sup>5</sup> See Schneider Direct, p. 68, lines 10-12 (Docket No. W-01445A-11-0310).

1 Cordes Lakes is a water utility which was granted a Certificate of Convenience and  
2 Necessity ("CC&N") in 1968, thus rendering its infrastructure to be less than fifty years  
3 old.<sup>6</sup>

4  
5 **Q. In his Rebuttal Testimony, Mr. Rowell is critical of Staff for using two different risk-**  
6 **free ( $R_f$ ) rates in its CAPM analyses. What is Staff's response?**

7 **A.** Staff incorporates two CAPM estimates into its cost of capital analyses, and as noted in  
8 Staff's Direct Testimony, utilizes separate parameters as surrogates for the risk-free rate in  
9 each.<sup>7</sup> The CAPM is assumed to be a single holding period model,<sup>8</sup> and in order to be  
10 reflective of an investor's holding period, Staff's historical market risk premium CAPM  
11 utilizes intermediate-term inputs. Specifically, Staff utilizes intermediate-term inputs for  
12 both the historical market risk premium component,<sup>9</sup> as well as for its proxy of the  
13 intermediate-term risk-free rate (i.e., the average of the 5-, 7- and 10-year spot U.S.  
14 Treasury yields).<sup>10</sup> Conversely, because Staff's current market risk premium is DCF-  
15 derived,<sup>11</sup> the inputs utilized by Staff in its current market risk premium CAPM are of a  
16 longer duration. The constant growth DCF model assumes that dividend growth (g) will  
17 continue indefinitely/infinately,<sup>12</sup> and for this reason Staff utilizes as its risk-free rate the  
18 spot yield on the 30-year U.S. Treasury note.<sup>13</sup>

19  

---

<sup>6</sup> Decision No. 39646, dated September 13, 1968 (Docket No. U-2060).

<sup>7</sup> Cassidy Direct, p. 29, lines

<sup>8</sup> Cassidy Direct, p. 28, footnote 10.

<sup>9</sup> Cassidy Direct, p. 30, lines 12-19.

<sup>10</sup> Cassidy Direct, p.29, lines 8-12.

<sup>11</sup> Cassidy Direct, p. 30, line 23.

<sup>12</sup> Cassidy Direct, p. 15, lines 15-16; and p. 16, line 4.

<sup>13</sup> Cassidy Direct, p. 29, lines 10-12.



1 Q. Mr. Rowell suggests that Staff has used two different values for the risk-free ( $R_f$ ) rate  
2 in the same CAPM equation, and in so doing has not only abandoned the simple logic  
3 of high school algebra, but by inference, has purposefully understated its historical  
4 market risk premium CAPM estimate.<sup>14</sup> Is this true?

5 A. No.

6  
7 Q. Since this is not true, how does Staff explain Mr. Rowell's assertion that when the  
8 risk-free ( $R_f$ ) rate can have a "positive impact" on the COE estimate, "Staff plugs in  
9 a low estimate of RF (1.29%)," yet when the risk-free rate can have a "negative  
10 impact" on the COE, "Staff plugs in a high estimate of RF (4.66%)?"<sup>15</sup>

11 A. As shown in Equation 8 of Staff's Direct Testimony,<sup>16</sup> and as depicted below, the risk-free  
12 ( $R_f$ ) rate does, in fact, appear twice in the CAPM formula:

$$K = R_f + \beta (R_m - R_f)$$

13  
14  
15  
16 First, as a value to be added to the quantity,  $[\beta(R_m - R_f)]$ , and again, in the calculation of  
17 the market risk premium,  $(R_m - R_f)$ . However, as noted in Staff's Direct Testimony,<sup>17</sup> for  
18 purposes of its historical market risk premium CAPM, the market risk premium  
19 component is calculated by taking the difference between the historical annual arithmetic  
20 mean return on equity securities, as measured by the S&P 500, over the period 1926-2011,  
21 and the arithmetic mean intermediate-term government bond income return over that same  
22 period of time. Being that the market risk premium is a measure of the return equity  
23 investors expect as compensation for exposure to market risk,<sup>18</sup> quantifying an historical

---

<sup>14</sup> Rowell Rebuttal, pp. 6-7.

<sup>15</sup> Rowell Rebuttal, p.7, lines 2-5.

<sup>16</sup> Cassidy Direct, p. 28, line 12.

<sup>17</sup> Cassidy Direct, p. 30, lines 12-19.

<sup>18</sup> Cassidy Direct, p. 30, line 6.

1 market risk premium necessitates using as inputs the average annual realized equity return  
2 on the one hand, and an average of the risk-free rate in effect over that same period of time  
3 on the other. Staff's historical market risk premium CAPM methodology utilizes this  
4 approach; thus, the 7.2 percent market risk premium shown in Schedule JAC-3 represents  
5 the difference between the 11.88 percent average annual total return on the S&P 500 and  
6 the 4.66 percent average annual intermediate-term government bond return covering the  
7 85-year period, 1926-2011 ( $7.22\% = 11.88\% - 4.66\%$ ).<sup>19</sup> Staff's utilization of a 1.3  
8 percent spot intermediate-term risk-free rate as the other ( $R_f$ ) value in the equation is  
9 consistent with estimating the expected market cost of equity utilizing the risk-free rate  
10 borne by investors in today's marketplace, calculated using the historical market risk  
11 premium discussed above.

12  
13 **Q. For purposes of its cost of capital analysis, how long has Staff employed the**  
14 **methodology discussed above to calculate its historical market risk premium CAPM**  
15 **COE estimate?**

16 **A.** To my knowledge, Staff has employed its historical market risk premium CAPM  
17 methodology for over ten years.

18  
19 **Q. To the best of your knowledge, has a cost of capital witness testifying on behalf of a**  
20 **utility in another rate docket ever questioned the propriety of Staff's historical**  
21 **market risk premium methodology in the manner Mr. Rowell has done in his**  
22 **Rebuttal Testimony?**

23 **A.** No.  
24

---

<sup>19</sup> Staff's 7.2 percent historical market risk premium is rounded to a single digit.

1 **Q. How does Staff respond to Mr. Rowell's assertion that Staff's analysis fails to**  
2 **address general economic conditions?**<sup>20</sup>

3 **A.** While it is true that Staff's Direct Testimony does not include a discussion of general  
4 economic conditions, consideration of general market conditions is inherently  
5 incorporated in the market based DCF and CAPM models used by Staff. Inputs (e.g.,  
6 stock prices, dividends, GDP, et al.) into the DCF and CAPM models reflect general  
7 economic conditions through market forces. Use of market based CAPM and DCF  
8 models is also a superior way to achieve compliance with the underlying criteria  
9 established by *Hope and Bluefield* that Mr. Rowell's Rebuttal claims Staff's cost of capital  
10 analysis fails to satisfy.<sup>21</sup> The Company's criticisms of Staff's ROE recommendation  
11 reflect a fundamental misunderstanding of the use of market based analyses as they apply  
12 to regulated utilities.

13  
14 **IV. STAFF RECOMMENDATIONS**

15 **Q. What are Staff's recommendations for Cordes Lakes' cost of capital?**

16 **A.** Staff recommends the following for Cordes Lakes' cost of capital:

- 17  
18 1. A capital structure of 0.0 percent debt and 100.0 percent equity.  
19 2. A 0.0 percent cost of debt.  
20 3. A 9.0 percent return on equity (including a 0.6 percent (60 basis points) upward  
21 economic assessment adjustment).  
22 4. A 9.0 percent overall rate of return.  
23

---

<sup>20</sup> Rowell Direct, p. 5, line 12.

<sup>21</sup> Rowell Rebuttal, p. 4, lines 9-10. As enumerated in Mr. Rowell's Rebuttal, these criteria consist of: Commensurate Earnings, Financial Integrity, Capital Attraction, Changing Level of Returns, and "End Result" Doctrine.

- 1    **Q.    Does this conclude your Surrebuttal Testimony?**
- 2    **A.    Yes, it does.**

**Cordes Lakes Cost of Capital Calculation**  
**Capital Structure**  
**And Weighted Average Cost of Capital**  
**Staff Recommended and Company Proposed**

| [A]                                     | [B]               | [C]         | [D]                  |
|---|-------------------|-------------|----------------------|
| <u>Description</u>                      | <u>Weight (%)</u> | <u>Cost</u> | <u>Weighted Cost</u> |
| Staff Recommended Structure             |                   |             |                      |
| Debt                                    | 0.0%              | 0.0%        | 0.0%                 |
| Common Equity                           | 100.0%            | 9.0%        | 9.0%                 |
| Weighted Average Cost of Capital        |                   |             | 9.0%                 |
| Company Proposed Structure <sup>1</sup> |                   |             |                      |
| Debt                                    | 0.0%              | 0.0%        | 0.0%                 |
| Common Equity                           | 100.0%            | 10.55%      | 10.55%               |
| Weighted Average Cost of Capital        |                   |             | <b>10.55%</b>        |

[D] : [B] x [C]

Supporting Schedules: JAC-3 and JAC-4.

<sup>1</sup> Represents the Company's rebuttal position.

Intentionally left blank

Cordes Lakes Cost of Capital Calculation  
Final Cost of Equity Estimates  
Sample Water Utilities

| [A]   | [B]   | [C]                       | [D] | [E]           |
|---|-------|---------------------------|-----|---------------|
| <b><u>DCF Method</u></b>                    |       |                           |     |               |
| Constant Growth DCF Estimate                |       | $\frac{D_1}{P_0} \cdot 1$ | +   | $\frac{g}{k}$ |
| Multi-Stage DCF Estimate                    |       | 3.1%                      | +   | 7.9%          |
| Average DCF Estimate                        |       |                           |     | <u>9.5%</u>   |
|   |       |                           |     | <u>8.7%</u>   |
| <b><u>CAPM Method</u></b>                   |       |                           |     |               |
| Historical Market Risk Premium <sup>3</sup> | $R_f$ | $\beta^5$                 | x   | $(R_M)$       |
| Current Market Risk Premium <sup>4</sup>    | 1.1%  | 0.71                      | x   | 6.2%          |
| Average CAPM Estimate                       | 2.8%  | 0.71                      | x   | <u>9.9%</u>   |
|   |       |                           |     | <u>8.1%</u>   |
| Average of Overall Cost of Equity Estimates |       |                           |     |               |
| Economic Assessment Adjustment              |       |                           |     |               |
| Sub-Total                                   |       |                           |     |               |
| Financial risk adjustment                   |       |                           |     |               |
| <b>ROE</b>                                  |       |                           |     |               |
|   |       |                           |     | 8.4%          |
|   |       |                           |     | <u>0.6%</u>   |
|   |       |                           |     | 9.0%          |
|   |       |                           |     | <u>0.0%</u>   |
|   |       |                           |     | <u>9.0%</u>   |

## 1 MSN Money and Value Line

## 2 Schedule JAC-8

3 Risk-free rate ( $R_f$ ) for 5, 7, and 10 year Treasury rates from the U.S. Treasury Department at [www.ustreas.gov](http://www.ustreas.gov)

4 Risk-free rate ( $R_f$ ) for 30 Year Treasury bond rate from the U.S. Treasury Department at [www.usdtreas.gov](http://www.usdtreas.gov)

**5' Value Line**

\$ Historical Market Risk Premium (Rp) calculated from Ibbotson Associates S&P 12 Yearbook data

## 7 Testimony

Cordes Lakes Cost of Capital Calculation  
Average Capital Structure of Sample Water Utilities

| [A]                                     | [B]          | [C]                     | [D]           |
|---|--------------|-------------------------|---------------|
| <u>Company</u>                          | <u>Debt</u>  | Common<br><u>Equity</u> | <u>Total</u>  |
| American States Water                   | 46.0%        | 54.0%                   | 100.0%        |
| California Water                        | 53.3%        | 46.7%                   | 100.0%        |
| Aqua America                            | 53.9%        | 46.1%                   | 100.0%        |
| Connecticut Water                       | 57.1%        | 42.9%                   | 100.0%        |
| Middlesex Water                         | 43.3%        | 56.7%                   | 100.0%        |
| SJW Corp                                | <u>55.7%</u> | <u>44.3%</u>            | <u>100.0%</u> |
| Average Sample Water Utilities          | <b>51.6%</b> | <b>48.4%</b>            | <b>100.0%</b> |
| Cordes Lakes - Actual Capital Structure | <b>0.0%</b>  | <b>100.0%</b>           | <b>100.0%</b> |

Source:

Sample Water Companies from Value Line



Cordes Lakes Cost of Capital Calculation  
Growth in Earnings and Dividends  
Sample Water Utilities

| [A]                            | [B]  | [C]   | [D]   | [E]  |
|--------------------------------|--|---|---|--|
| Company                        | Dividends<br>Per Share<br>2003 to 2012<br>DPS <sup>1,2</sup> | Dividends<br>Per Share<br>Projected<br>DPS <sup>1,3</sup> | Earnings<br>Per Share<br>2003 to 2012<br>EPS <sup>1,2</sup> | Earnings<br>Per Share<br>Projected<br>EPS <sup>1,3</sup> |
| American States Water          | 3.9%   | 6.0%  | 7.7%  | 1.2%   |
| California Water               | 1.2%   | 7.4%  | 5.0%  | 5.8%   |
| Aqua America                   | 7.7%   | 8.3%  | 7.3%  | 8.0%   |
| Connecticut Water              | 1.7%   | 2.8%  | 3.2%  | 2.1%   |
| Middlesex Water                | 1.6%   | 1.6%  | 2.1%  | 5.0%   |
| SJW Corp                       | 4.4%   | 4.9%  | 4.2%  | 6.3%   |
| Average Sample Water Utilities | 3.4%   | 5.2%  | 4.9%  | 4.7%   |

<sup>1</sup> Value Line

<sup>2</sup> Value Line -- Ten-year historical DPS and EPS growth.

<sup>3</sup> Value Line -- Projected DPS and EPS growth covers the five-year period, 2013-2017.

Cordes Lakes Cost of Capital Calculation  
Sustainable Growth  
Sample Water Utilities

| [A]                            | [B]                                       | [C]                                    | [D]                                | [E]  | [F]   |
|--------------------------------|---|--|------------------------------------|--|---|
| Company                        | Retention<br>Growth<br>2003 to 2012<br>br | Retention<br>Growth<br>Projected<br>br | Stock<br>Financing<br>Growth<br>vs | Sustainable<br>Growth<br>2003 to 2012<br>br + vs | Sustainable<br>Growth<br>Projected<br>br + vs |
| American States Water          | 3.8%                                      | 5.6%                                   | 2.6%                               | 6.5%   | 8.2%  |
| California Water               | 2.4%                                      | 3.2%                                   | 2.3%                               | 4.7%   | 5.5%  |
| Aqua America                   | 3.9%                                      | 4.4%                                   | 2.5%                               | 6.4%   | 6.9%  |
| Connecticut Water              | 2.0%                                      | 3.0%                                   | 0.9%                               | 2.9%   | 4.0%  |
| Middlesex Water                | 1.2%                                      | 2.8%                                   | 3.5%                               | 4.7%   | 6.2%  |
| SJW Corp                       | 3.5%                                      | 3.8%                                   | 0.1%                               | 3.6%   | 3.9%  |
| Average Sample Water Utilities | 2.8%                                      | 3.8%                                   | 2.0%                               | 4.8%   | 5.8%  |

[B]: Value Line

[C]: Value Line

[D]: Value Line and MSN Money

[E]: [B]+[D]

[F]: [C]+[D]

Cordes Lakes Cost of Capital Calculation  
Selected Financial Data of Sample Water Utilities

| [A]                   | [B]    | [C]                    | [D]        | [E]            | [F]                | [G]         |
|-----------------------|--------|------------------------|------------|----------------|--------------------|-------------|
| Company               | Symbol | Spot Price<br>5/1/2013 | Book Value | Mkt To<br>Book | Value Line<br>Beta | Raw<br>Beta |
| American States Water | AWR    | 54.22                  | 22.51      | 2.4            | 0.70               | <u>0.52</u> |
| California Water      | CWT    | 19.71                  | 11.52      | 1.7            | 0.65               | 0.45        |
| Aqua America          | WTR    | 31.43                  | 9.61       | 3.3            | 0.60               | 0.37        |
| Connecticut Water     | CTWS   | 28.15                  | 13.76      | 2.0            | 0.75               | 0.60        |
| Middlesex Water       | MSEX   | 19.00                  | 12.10      | 1.6            | 0.70               | 0.52        |
| SJW Corp              | SJW    | 24.58                  | 15.51      | 1.6            | 0.85               | <u>0.75</u> |
| Average               |        |                        |            | 2.1            | 0.71               | 0.53        |

[C]: Msn Money

[D]: Value Line

[E]: [C] / [D]

[F]: Value Line

[G]: (-0.35 + [F]) / 0.67

Cordes Lakes Cost of Capital Calculation  
Calculation of Expected Infinite Annual Growth in Dividends  
Sample Water Utilities

| [A]   | [B]         |
|---|-------------|
| <u>Description</u>                                | <u>g</u>    |
| DPS Growth - Historical <sup>1</sup>              | 3.4%        |
| DPS Growth - Projected <sup>1</sup>               | 5.2%        |
| EPS Growth - Historical <sup>1</sup>              | 4.9%        |
| EPS Growth - Projected <sup>1</sup>               | 4.7%        |
| Sustainable Growth - Historical <sup>2</sup>      | 4.8%        |
| <u>Sustainable Growth - Projected<sup>2</sup></u> | <u>5.8%</u> |
| Average   | <b>4.8%</b> |

<sup>1</sup> Schedule JAC-5

<sup>2</sup> Schedule JAC-6

Cordes Lakes Cost of Capital Calculation  
Multi-Stage DCF Estimates  
Sample Water Utilities

| [A]                   | [B]  | [C]  | [D]   | [E]   | [F]   | [H]                                      | [I]  |
|-----------------------|--|--|-------|-------|-------|--|--|
| Company               | Current Mkt.<br>Price ( $P_0$ ) <sup>1</sup> | Projected Dividends <sup>2</sup> (Stage 1 growth)<br>( $D_t$ ) |       |       |       | Stage 2 growth <sup>3</sup><br>( $g_n$ ) | Equity Cost<br>Estimate ( $K$ ) <sup>4</sup> |
|                       | 5/1/2013                                     | $d_1$  | $d_2$ | $d_3$ | $d_4$ |  |  |
| American States Water | 54.2   | 1.36   | 1.42  | 1.49  | 1.56  | 6.5%                                     | 8.9%   |
| California Water      | 19.7   | 0.66   | 0.69  | 0.72  | 0.75  | 6.5%                                     | 9.7%   |
| Aqua America          | 31.4   | 0.70   | 0.73  | 0.76  | 0.80  | 6.5%                                     | 8.6%   |
| Connecticut Water     | 28.2   | 0.98   | 1.02  | 1.07  | 1.12  | 6.5%                                     | 9.8%   |
| Middlesex Water       | 19.0   | 0.76   | 0.80  | 0.84  | 0.88  | 6.5%                                     | 10.4%  |
| SJW Corp              | 24.6   | 0.74   | 0.78  | 0.81  | 0.85  | 6.5%                                     | 9.4%   |

$$P_0 = \sum_{t=1}^n \frac{D_t}{(1+K)^t} + \frac{D_n(1+g_n)}{K - g_n} \left[ \frac{1}{(1+K)} \right]^n$$

Where :  $P_0$  = current stock price

$D_t$  = dividends expected during stage 1

$K$  = cost of equity

$n$  = years of non-constant growth

$D_n$  = dividend expected in year n

$g_n$  = constant rate of growth expected after year n

Average      **9.5%**

<sup>1</sup> [B] see Schedule JAC-7

<sup>2</sup> Derived from Value Line Information

<sup>3</sup> Average annual growth in GDP 1929 - 2011 in current dollars.

<sup>4</sup> Internal Rate of Return of Projected Dividends



BEFORE THE ARIZONA CORPORATION COMMISSION

BOB STUMP

Chairman

GARY PIERCE

Commissioner

BRENDA BURNS

Commissioner

BOB BURNS

Commissioner

SUSAN BITTER SMITH

Commissioner

IN THE MATTER OF THE APPLICATION OF )  
CORDES LAKES WATER COMPANY FOR )  
AN INCREASE IN ITS RATES )  
\_\_\_\_\_ )

DOCKET NO W-02060A-12-0356

DIRECT

TESTIMONY

OF

MARY J. RIMBACK

PUBLIC UTILITIES ANALYST

UTILITIES DIVISION

ARIZONA CORPORATION COMMISSION

FEBRUARY 8, 2013

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**EXECUTIVE SUMMARY**  
**CORDES LAKES WATER COMPANY**  
**DOCKET NO. W-02060A-12-0356**

Cordes Lakes Water Company ("Cordes Lakes" or "Company") is an Arizona for-profit Class C public service corporation providing water to approximately 1,300 customers in and around the Town of Cordes Junction, Yavapai County, Arizona.

On August 6, 2012, the Company filed a rate increase application. On August 17, the Company docketed additions and revisions to the rate increase application. On August 30, 2012, the Company requested additional time to file revisions to the rate application. On September 25, 2012, the Company docketed additional information revising the rate application. On October 17, 2012, Staff filed a letter declaring the Company's rate application sufficient. On November 8, 2012, the Company docketed Additions to the Rate Increase Application.

The Company-proposed rates, as filed, produce total operating revenue of \$498,366, a \$77,000 (19.06 percent) increase, over the test year revenue of \$403,993, to provide a \$37,000 operating income and an 8.0 percent rate of return on a proposed \$496,789 fair value rate base ("FVRB") which is also the proposed original cost rate base ("OCRB").<sup>1</sup> The rate application shows that Cordes Lakes incurred a \$17,373 operating loss for the test year ending December 31, 2011. Cordes Lakes requested 77,000 revenue increase includes: (1) \$17,373 to cover the test year operating loss; (2) \$20,000 for profit; (3) \$30,000 as a surcharge for 2 years for "leak detection and repair;" and (4) \$10,000 as a surcharge for 3 years for "meter loss prevention."

The Utilities Division ("Staff") recommends total operating revenue of \$428,739, a \$8,202 (1.95 percent) increase over the \$420,536 Staff-adjusted test year revenue, to provide an \$11,512 operating income and a 9.1 percent rate of return on the \$126,500 Staff-adjusted FVRB and OCRB. Staff's recommendation reflects six rate base adjustments and nine operating income adjustments.

The Company currently has three meter sizes: 3/4-inch, 1-inch and 2-inch. Customers with 3/4-inch meters have a three-tiered commodity rate structure with break-over points at 3,000 gallons and at 8,000 gallons. The monthly minimum charge for 3/4-inch meters is \$11.00. The 1-inch and 2-inch customers have a two-tiered commodity rate structure with break-over points at 18,000 gallons for 1-inch meters and at 75,000 gallons for 2-inch meters. Monthly minimum charges are \$19.50 for 1-inch meters and \$62.50 for the 2-inch meters. The Company proposes to increase (varies between 22.7 percent and 25.6 percent) the monthly minimum charges for all meter sizes and to all commodity rate tiers. The application does not specify any surcharge rates.

Staff recommends no increase to the minimum monthly charge for all meter sizes. Staff recommends an increase to commodity rates in second and third tiers (as it applies to 3/4-inch meters and which represents the first and second tiers for larger meters). Second tier commodity tier rate would increase by \$0.20 (4.65 percent) from \$4.30 per 1,000 gallons to \$4.50 per 1,000 gallons. The third tier commodity rates would increase by \$0.40 (8.00

---

<sup>1</sup> The Company's as filed amounts are not mathematically accurate.

percent) from \$5.00 per 1,000 gallons to \$5.40 per 1,000 gallons. The typical 3/4-inch meter bill with a median use of 3,088 gallons would increase by \$.02 (.09 percent) from \$19.78 to \$19.80.

---

**I. INTRODUCTION**

**Q. Please state your name, occupation, and business address.**

A. My name is Mary J. Rimback; I am a Public Utilities Analyst Arizona Corporation Commission ("ACC" or "Commission") in the Utilities Division ("Staff"). My business address is 1200 West Washington Street, Phoenix, Arizona 85007.

**Q. Briefly describe your responsibilities as a Public Utilities Analyst.**

A. In my capacity as a Public Utilities Rate Analyst, I analyze and examine accounting, financial, statistical and other information and prepare reports based on my analyses that present Staff's recommendations to the Commission on utility revenue requirements, rate design and other issues.

**Q. Please describe your educational background and professional experience.**

A. I graduated from Arizona State University with a Bachelor of Science in Accounting and I am a Certified Public Accountant with the Arizona State Board of Accountancy. I have been employed with the Arizona Corporation since June 2012.

**Q. What is the scope of your testimony in this case?**

A. I am presenting Staff's analysis and recommendations regarding Cordes Lakes Water Company ("Cordes Lakes" or "Company") application for a rate increase. I am presenting testimony and schedules addressing rate base, operating revenues and expenses, revenue requirement and rate design. Mr. John Cassidy is presenting the Staff's analysis and recommendation for the cost of capital analysis. Mr. Del Smith is presenting Staff's engineering analysis and related recommendations.

1 **Q. What is the basis of your testimony in this case?**

2 A. I performed a regulatory audit of the Company's application and records. The regulatory  
3 audit consisted of examining and testing financial information, accounting records, and  
4 other supporting documentation and verifying that the accounting principles applied were  
5 in accordance with the Commission-adopted National Association of Regulatory Utility  
6 Commissioners ("NARUC") Uniform System of Accounts ("USOA").  
7

8 **Q. How is your testimony organized?**

9 A. My testimony is presented in ten Sections. Section I is this introduction. Section II  
10 provides a background of the Company. Section III is a summary of consumer service  
11 issues. Section IV presents compliance status. Section V is a summary of proposed  
12 revenues. Section VI is a summary of Staff's rate base and operating income adjustments.  
13 Section VII presents Staff's rate base recommendations. Section VIII presents Staff's  
14 operating income recommendations. Section IX discusses rate design. Section X  
15 discusses the surcharge requested by the company.  
16

17 **II. BACKGROUND**

18 **Q. Please review the pertinent background information associated with the Company's'**  
19 **application for a rate increase.**

20 A The Company is a Class C water system servicing approximately 1,300 customers in  
21 Cordes Junction, Arizona. Prior to 2005, Cordes Lakes also included a second water  
22 system named Verde Lakes located in Cottonwood, Arizona. In 2004, the City of  
23 Cottonwood initiated condemnation proceedings and took over the servicing of the Verde  
24 Lakes water system. Decision No. 70170 (February 27, 2008) established the Company's  
25 current rates.

1 **Q. Please describe pertinent information provided with this application.**

2 A. The initial rate application requested funds to cover an operating loss, produce an  
3 operating income of \$20,000, plus additional funding of \$30,000 for leak repair plus \$10  
4 for leak repair.<sup>2</sup> Narrative accompanying the application indicated this request was a 20  
5 percent increase.

6  
7 On August 17, 2012, the Company docketed additional information pertaining to bill  
8 counts and service charges collected in the test year. This filing also included a request to  
9 increase Service Line and Meter Charges.

10  
11 On September 24, 2012, the Company docketed a revised Schedule A-1, requesting a  
12 \$77,000 gross revenue increase, inclusive of \$40,000 of surcharges. The narrative  
13 described the surcharges as \$30,000 per year for two years to cover leak repair and  
14 \$10,000 per year for three years to cover meter repair and replacement. Additional  
15 information on bill counts and sales was provided on September 24, 2012. A revised  
16 Schedule E-2 was also filed at that time.

17  
18 After Staff declared the application sufficient, the Company docketed additional  
19 information on November 8, 2012. The additional information included the detail of  
20 increases to Plant since the test year in the prior rate case.

21  
22 **Q. What test year did Cordes Lakes use in its filing?**

23 A. Cordes Lakes rate filing is based on the twelve months that ended December 31, 2011.  
24

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<sup>2</sup> The \$10 value is apparently a typographical error and was intended to be \$10,000 as shown in Schedule F-1.

**III. CONSUMER SERVICE**

**Q. Please provide a brief summary of customer complaints received by the Commission regarding Cordes Lakes.**

A. Staff reviewed the Commission's records for the period January 1, 2010, through December 31, 2012, and found the following:

2012 - Zero complaints.

2011 - Four complaints - one billing, two quality of service and one disconnect/termination.

2010 - Zero complaints.

All complaints have been resolved and closed.

**IV. COMPLIANCE**

**Q. Please provide a summary of the compliance status of the Company.**

A. A review of the Commission's Compliance database indicates that there are currently no delinquencies for the Company.

**V. SUMMARY OF COMPANY FILING AND STAFF RECOMMENDATIONS**

**Q. Please summarize the Cordes Lakes' proposals in this filing?**

A. The Company-proposed rates, as filed, produce total operating revenue of \$498,366, a \$77,000 (19.06 percent) increase, over the test year revenue of \$403,993, to provide a \$37,000 operating income and an 8.0 percent rate of return on a proposed \$496,789 fair value rate base ("FVRB") which is also the proposed original cost rate base ("OCRB").<sup>3</sup> The rate application shows that Cordes Lakes incurred a \$17,373 operating loss for the test year ending December 31, 2011. Cordes Lakes requested 77,000 revenue increase

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<sup>3</sup> The Company's as filed amounts are not mathematically accurate.

1 includes: (1) \$17,373 to cover the test year operating loss; (2) \$20,000 for profit;  
2 (3) \$30,000 as a surcharge for 2 years for "leak detection and repair;" and (4) \$10,000 as a  
3 surcharge for 3 years for "meter loss prevention."  
4

5 **Q. Please summarize Staff's recommendations.**

6 A. Staff recommends total operating revenue of \$428,739, an \$8,202 (1.95 percent) increase  
7 over the \$420,536 Staff-adjusted test year revenue, to provide an \$11,512 operating  
8 income and a 9.1 percent rate of return on the \$126,500 Staff-adjusted FVRB and OCRB.  
9 Staff further recommends that the Company be ordered to maintain its books and records  
10 in accordance with the National Association of Regulatory Utility Commissioners  
11 ("NARUC") Uniform System of Accounts ("USOA")  
12

13 **VI. SUMMARY OF STAFF'S RATE BASE AND OPERATING INCOME**  
14 **ADJUSTMENTS**

15 **Q. Please summarize Staff's rate base and operating income adjustments.**

16 A. **Rate Base:**

17 Land – This adjustment removes \$35,665 of land that is not used and useful.

18 Plant in Service – This adjustment reinstates \$582,872 in used and useful assets that the  
19 Company wrote off.

20 Additions to Plant - This adjustment decreases Plant additions by \$11,818, reflecting  
21 adjustments for items not properly included in Plant.

22 Accumulated Depreciation - This adjustment increases accumulated depreciation by  
23 \$755,284 to reflect Staff's calculation based on Staff's recommended plant, primarily  
24 amounts associated with plant the Company wrote off that remains in service.

1        Contributions in Aid of Construction (CIAC) - This adjustment increases CIAC by  
2        \$76,247 to recognize the amount authorized in Decision No. 54526 (May 22, 1985) which  
3        the Company omitted from its application.

4        Working Capital Allowance - This adjustment removes the Company's entire proposed  
5        working capital allowance of \$74,147 which is based on the formula method instead of a  
6        lead-lag study.

7  
8        **Operating Income:**

9        Contract Labor - This adjustment removes \$167,692 of salary reimbursements from  
10       affiliates from both revenue and payroll expense.

11       Repairs and Maintenance Expenses - This adjustment increases expenses by \$1,012 to  
12       provide a normalized level based on the past three years.

13       Metered Revenues - This adjustment increases metered revenue by \$9,093 to reflect bill  
14       count revenues.

15       Depreciation Expense - This adjustment decreases depreciation expense by \$18,648 to  
16       reflect application of Staff's recommended depreciation rates to Staff recommended plant  
17       amounts.

18       Property Taxes - This adjustment increases property taxes by \$5,242 to reflect application  
19       of the modified version of the Arizona Department of Revenue's property tax  
20       methodology which the Commission has consistently adopted.

21       Test Year Income Taxes - This adjustment increases test year income tax expense by  
22       \$1,317 to reflect application of statutory state and federal income tax rates to Staff  
23       adjusted taxable income.

24       Water Testing Expense - This adjustment increases water testing expense by \$4,052.

25       Unmetered Revenue Service Charges - This adjustment increases revenues by \$7,450 to  
26       reflect test year collections of unmetered revenues.



1           Interest on Customer Deposits – This adjustment increases interest expense in the amount  
2           of \$1,050 to reflect 6 percent interest on customer deposits.

3  
4       **VII.   RATE BASE**

5       **Fair Value Rate Base**

6       **Q.    Does Cordes Lakes' application include schedules with elements of a Reconstruction**  
7       **Cost New Rate Base?**

8       A.    No. The Company's application does not request recognition of a Reconstruction Cost  
9       New Rate Base. Accordingly, Staff has treated the Company's original cost rate base as  
10       its fair value rate base.

11  
12       **Rate Base Summary**

13       **Q.    Please summarize Staff's rate base recommendation.**

14       A.    Staff recommends \$126,500 for a rate base, a \$370,289 reduction from the Company's  
15       proposed \$496,789 rate base. Staff's recommendation results from the six rate base  
16       adjustments as discussed below.

17  
18       **Rate Base Adjustment No. 1 – Land**

19       **Q.    What did the Company propose for Land?**

20       A.    The Company's application includes \$35,665 for land in rate base.

21  
22       **Q.    Did the Company propose to include this same land in rate base in its prior rate case**  
23       **based on a 2006 test year?**

24       A.    Yes.

1     **Q.     Did the Commission adopt the Company's proposal to include this land in the rate**  
2     **base in the prior rate case?**

3     A.     No. Decision No. 70170 (February 26, 2008) adopted Staff's rate base recommendations  
4             which included removal of \$35,665 of land as not used and useful. The Company asserted  
5             that the land was to be used for a future well site.

6  
7     **Q.     Did Cordes Lakes add any well sites since the prior rate case as filed in 2007?**

8     A.     No.

9  
10    **Q.     Is the land still not used and useful?**

11   A.     Yes.

12  
13    **Q.     What is Staff Recommending?**

14   A.     Staff recommends removing \$35,665 of land from the rate base, as shown in Schedule  
15             MJR-5.

16  
17    **Rate Base Adjustment No. 2 – Reinstate Used and Useful Asset**

18    **Q.     Did the Company write off utility plant that remains in service?**

19   A.     Yes. The Company does not maintain records in accordance with the NARUC USOA,  
20             and its practice is to write off fully depreciated assets regardless of whether they are still  
21             used and useful. As a consequence, the Company wrote off plant and related accumulated  
22             depreciation on plant that remains in service. No retirements of assets were shown in the  
23             Schedules provided to Staff nor in data responses provided to Staff.

1     **Q.     Did Staff calculate an amount for the plant removed from the Company's records**  
2     **that remains in service?**

3     A.     Yes, Staff calculated plant balances for the end of the test year using plant balances  
4           authorized in the Company's 2007 rate case and documented plant additions for the  
5           intervening years.

6  
7     **Q.     What is Staff recommending?**

8     A.     Staff recommends increasing plant in service by \$582,872, as shown in Schedule MJR-6.  
9           The associated adjustment to accumulated depreciation in the same amount is included  
10          rate base adjustment no. 4 discussed below.

11

12     **Rate Base Adjustment No. 3 - Net Plant Additions**

13     **Q.     Does the Company have records to support all of the additions to plant since the last**  
14     **rate Case?**

15     A.     No, the Company provided Staff invoices for plant additions that included non-capitalized  
16           items. In addition, the invoices provided did not total to the amount of plant additions  
17           claimed. Staff recalculated the plant additions based on the supporting documentation.

18

19     **Q.     What does Staff recommend?**

20     A.     Staff recommends removing \$11,818 from additions to plant in service, as shown in  
21           Schedule MJR-7.

**Rate Base Adjustment No. 4 – Accumulated Depreciation**

**Q. Did Cordes Lakes maintain adequate records to support its proposed Accumulated Depreciation balance of \$139,712?**

**A.** No. As noted above, Cordes Lakes does not maintain its records in accordance with the NARUC USOA. The Company primarily maintains its records on a tax basis, which is significantly different.

**Q. How did Staff calculate its recommended Accumulated Depreciation?**

**A.** Staff began with the accumulated depreciation balance adopted by the Commission in the rate case and applied the Commission-authorized depreciation rates to depreciable plant and all documented additions in the intervening years. Staff's calculation includes \$582,872 associated with Staff rate base adjustment no. 2 to add back fully depreciated plant the Company wrote off that remains in service.

**Q. What is Staff recommending?**

**A.** Staff recommends an Accumulated Depreciation balance of \$894,996, a \$755,284 increase over the Company's proposed balance of \$139,712, as shown on Schedule MJR-8.

**Rate Base Adjustment No. 5 – Recognition of Contributions in Aid of Construction ("CIAC")**

**Q. What did the Company propose for CIAC?**

**A.** The Company's rate base (Schedule B1) omits any mention of CIAC. That is, the Company proposes \$0 for CIAC.

1 **Q. Is Cordes Lakes' proposed CIAC consistent with Commission Decision No. 54526?**

2 A. No. Decision No. 54526 ordered the Company to cease amortizing advances that were no  
3 longer subject to refund and reclassify them as contributions in aid of construction. Since  
4 the \$76,247 CIAC balance is not being amortized, the balance remains at \$76,247.

5  
6 **Q. What is Staff recommending?**

7 A. Staff recommends a CIAC balance of \$76,247, as shown in Schedule MJR-9.  
8

9 **Rate Base Adjustment No. 6 – Working Capital Allowance**

10 **Q. What is Cordes Lakes proposing for a working capital allowance?**

11 A. The Company proposes a working capital allowance base on a formula method, i.e., one-  
12 twenty-fourth of electric power expense and one-eighth of other operating and  
13 maintenance expense.  
14

15 **Q. Is the formula method proposed by the Company a preferred method for calculating**  
16 **a working capital allowance?**

17 A. Staff does not recommend the use of the formula method of Class A, B and C size utilities.  
18 The formula method always results in a positive outcome. There is no basis for presuming  
19 that there is a need for ratepayer to provide a working capital allowance for utilities with  
20 reasonable cash management practices. In fact, since several relatively large expenses  
21 (e.g., property and income taxes) are usually paid long after cash is received from  
22 ratepayers, a negative working capital requirement is reasonably expected. Working  
23 capital requirements are best determined by a lead-lag study. In the absence of a lead-lag  
24 study demonstrating otherwise, there is no reason to expect a positive working capital  
25 requirement consistent with the outcome of the Company's proposed formula method.  
26

1 **Q. What is Staff recommending?**

2 A. Staff recommends \$0 for a cash working capital allowance, as shown in Schedule MJR-  
3 10.

4  
5 **VIII. OPERATING INCOME**

6 **Q. What are the results of Staff's analysis of test year revenues, expenses, and operating**  
7 **income?**

8 A. As shown in Schedules MJR-11 and MJR-12, Staff's analysis resulted in test year  
9 revenues of \$420,536, expenses of \$415,390 and operating income of \$5,146. The  
10 Company's application shows test year revenues of \$571,685, expenses of \$589,058 and  
11 an operating loss of \$17,373. Staff's recommendation results from the nine operating  
12 income adjustments discussed below.

13  
14 **Operating Income Adjustment No. 1 - Contract Labor**

15 **Q. What treatment does the Company propose for the \$167,692 of payments received**  
16 **from other entities for work provided by Cordes Lakes' employees?**

17 A. The Company included all of the \$167,692 in both operating revenues and operating  
18 expenses.

19  
20 **Q. Are these payments related to the operations of Cordes Lakes to provide service to**  
21 **its customers?**

22 A. No. Cordes Lakes received these payments for services provided by its employees to  
23 other entities. The payments are neither operating revenues nor operating expenses of the  
24 Company and should be removed.

1     **Q.     What is Staff Recommending?**

2     A.     Staff recommends removing \$167,692 from both operating revenues and operating  
3             expenses, as shown in Schedule MJR-13.

4  
5     **Operating Income Adjustment No. 2 - Repairs and Maintenance Expense**

6     **Q.     What is the Company proposing for Repairs and Maintenance Expense?**

7     A.     The Company is proposing its actual recorded test year Repairs and Maintenance expense  
8             of \$12,650.

9  
10    **Q.     Is the test year expense representative of average on-going repairs and maintenance**  
11        **expense?**

12    A.     The Company's annual reports show Repairs and Maintenance expenses for 2009, 2010  
13             and 2011 of \$11,116, \$17,221, and \$12,650, respectively, which indicates that these  
14             expenses can vary from year to year. Accordingly normalizing these expenses by using a  
15             three-year average (\$13,662) is a reasonable approach for estimating the average on-going  
16             amount.

17  
18    **Q.     What is Staff recommending?**

19    A.     Staff recommends Repairs and Maintenance expense of \$13,662, an increase of \$1,012  
20             from the Company's proposed amount, as shown in Schedule MJR-14.

**Operating Income Adjustment No. 3 - Metered Revenue**

**Q. Did the test year bill counts presented in the Company's application reconcile to the test year metered revenue proposed by the Company?**

A. No, the billing determinants for metered water sales provided in the Company's February 24, 2012 filing, generate \$412,446, \$9,093 more than the \$403,353 metered revenue shown in the Company's application.

**Q. What is Staff's Recommendation?**

A. Staff recommends increasing test year revenue by the amount of \$9,093, as shown in MJR-15.

**Operating Income Adjustment No. 4 - Depreciation Expense**

**Q. What is the Company proposing for depreciation expense?**

A. The Company proposed \$37,195 for test year depreciation expense.

**Q. Does Staff recommend any modifications to the Company's proposed depreciation expense calculation?**

A. Yes. Staff calculated depreciation expense by applying its recommended depreciation rates (the same rates adopted by the Commission in the prior rate case) to its recommended plant balances.

**Q. What is Staff recommending?**

A. Staff recommends \$18,547 for depreciation expense, a \$18,648 reduction from the Company's proposed amount, as shown in Schedule MJR-16.



**Operating Income Adjustment No. 5 - Property Tax Expense**

**Q. What is Cordes Lakes proposing for Test Year Property Taxes?**

A. Cordes Lakes is proposing \$18,187 for test year property tax expense.

**Q. Does the Commission normally use the actual property tax bill for the test year for ratemaking purposes of Class C water utilities?**

A. No. The Commission's practice in recent years has been to use a modified Arizona Department of Revenue ("ADOR") methodology for water and wastewater utilities. The results from using this methodology are primarily dependent upon the test year and proposed revenues. In other words, for each revenue requirement, there is a specific property tax expense in the same manner as each operating income has a specific income tax expense. Although the results for this methodology are frequently referred to as test year amounts, in fact, the results are representative of the average expected property tax over a subsequent three-year period based partially on proposed revenues. The modified ADOR calculation for property tax expense is static, i.e. it is representative only at a specific level.

**Q. Has Staff developed a solution to address the dependent relationship between Property Tax expense and revenues?**

A. Yes. Staff has included a factor for property taxes in the Gross Revenue Conversion Factor ("GRCF") (See Schedule MJR-2) that automatically adjusts the revenue requirement for changes in revenue in the same way that income taxes are adjusted for changed in operating income. This flexible method will accurately reflect Property Tax expense at any authorized revenue level. This refinement removes the need to include proposed revenues in the calculation of test year Property Tax expense and allows for accurate calculation of Property Tax expense at the test year revenue level.

1 **Q. What is Staff recommending for test year Property Tax Expense?**

2 A. Staff recommends \$23,429 for test year property tax expense, a \$5,242 increase to the  
3 Company's proposed amount, as shown in Schedule MJR-17. Staff further recommends  
4 adoption of its GRCF that includes a factor for Property Tax Expense, as shown in  
5 Schedule MJR-2.

6  
7 **Operating Income Adjustment No. 6 - Income Taxes**

8 **Q. Did Staff make an adjustment to test year Income Tax Expense?**

9 A. Yes.

10  
11 **Q. How did Staff calculate test year income tax expense for the Company?**

12 A. Staff applied the statutory state and federal income tax rates to Staff's test year taxable  
13 income. Income tax expenses for the test year and recommended revenues are shown in  
14 MJR-2.

15  
16 **Q. What adjustment does Staff recommend for test year income tax expense for the  
17 Company?**

18 A. Staff recommends increasing test year income tax expense by \$1,317, as shown in  
19 Schedule MJR-18.

20  
21 **Operating Income Adjustment No. 7 - Water Testing Expense**

22 **Q. What is the Company proposing for Water Testing expense?**

23 A. The Company is proposing \$1,806 for Water Testing expense in the test year.

1 **Q. What is Staff's Recommendation?**

2 A. Staff recommends \$5,858 for Water Testing expense (See Staff testimony of Del Smith),  
3 an increase of \$4,052 to the Company's proposed amount. Staff's adjustment is shown in  
4 Schedule MJR-19.

5  
6 **Operating Income Adjustment No. 8 - Un-metered Revenues**

7 **Q. What amount did the Company claim for Un-metered Revenue in its most recent**  
8 **revision of it application?**

9 A. The Company's most recent application update regarding Un-metered Revenue is in its  
10 September 24, 2012, filing. Specifically, the Company submitted a revised Schedule E-2,  
11 which is the schedule used by the Company for test year revenues and expenses. The  
12 revised Schedule E-2 shows \$640 as miscellaneous income.

13  
14 **Q. Did the Company provide a breakout of the components of the \$640 in miscellaneous**  
15 **income?**

16 A. Yes, the breakout included the categories of: "non water company adjustment, bad  
17 checks, deposit account balance, meter refund account balance, miscellaneous account  
18 adjustment (estab, reconnect, etc) and sales tax collected." Unmetered revenue normally  
19 includes amounts for authorized service charges, such as: establishment, reconnection, re-  
20 establishment, meter re-read (if correct) and non-sufficient funds fees. With the exception  
21 of non-sufficient funds fees, the items noted by the Company are not items to include in  
22 un-metered revenue.

23  
24 **Q. Did the Company's breakout of the \$640 amount for these service charges include an**  
25 **amount for miscellaneous revenues?**

26 A. Yes. The Companies breakout shows \$8,161 in miscellaneous revenues.

1     **Q.     Had the Company previously provided better detail regarding its Un-metered service**  
2     **charges?**

3     A.     Yes, the Company provided detail for \$8,090 of un-metered revenues in its August 17,  
4     2012, filing of additions to the rate increase application.

5  
6     **Q.     What does Staff recommend for Un-metered Revenues?**

7     A.     Staff recommends \$8,090 Un-metered Revenues, a \$7,450 increase to the Company  
8     proposed amount, as shown in Schedule MJR-20.

9  
10    **Operating Income Adjustment No. 9 - Interest on Customer Deposits**

11   **Q.     Does the Company's application include a provision to recover interest on customer**  
12   **deposits?**

13   A.     No.

14  
15   **Q.     Is it a normal ratemaking practice to allow a utility to recover interest expense on**  
16   **customer deposits?**

17   A.     Yes. Interest expense incurred on customer deposits is normally recognized as an  
18   operating expense when customer deposits are deducted in the calculation of rate base.

19  
20   **Q.     Does Staff recommend including interest expense for Customer Deposits as an**  
21   **operating expense in this case?**

22   A.     Yes, Staff recommends allowing \$1,050 for interest on customer deposits, as shown in  
23   Schedule MJR-21.

**IX. RATE DESIGN**

**Present Rate Design**

**Q. Please provide an overview of the Company's present rates.**

A. Present, Proposed, and Staff Recommended rate design are presented in Staff's Direct Testimony Schedule MJR-22. The present rates went into effect March 1, 2008. There are three meter sizes presently in use in the system: 3/4-inch, 1-inch and 2-inch. The 3/4-inch meter has a three-tiered commodity rate structure with break-over points at 3,000 and 8,000 gallons. The tier rates are \$2.80, \$4.30 and \$5.00 with a monthly minimum of \$11.00. All other meters have a two-tiered rate structure. The 1-inch meter has a break-over point of 18,000 gallons and commodity rates of \$4.30 and \$5.00 with a monthly minimum of \$19.50. There is only one customer with a 2-inch meter. The break-over point is 75,000 gallons and commodity rates are \$4.30 and \$5.00 with a monthly minimum of \$62.50.

**The Company's Proposed Water Rate Design**

**Q. Please provide an overview of the Company's proposed rate increases.**

A. The Company proposes to maintain the existing break-over points for all meter sizes and increase the commodity tier rates from \$2.80 to \$3.30 (a 17.9 percent increase) for the first tier, from \$4.30 to \$5.25 (a 22.1 percent increase) for the second tier and from \$5.00 to \$6.00 (a 20.0 percent increase) for the third tier. Minimum Monthly charges are proposed to increase from \$11.00 to \$13.50 (a 22.7 percent increase) for the 3/4-inch meter; from \$19.50 to \$24.50 (a 25.6 percent increase) for the 1-inch meter; from \$62.50 to \$78.00 (a 24.8 percent increase) for the 2-inch meter. The Company proposes similar percentage increases in the minimum monthly charges for other meter sizes.

1 **Q. Did the Company propose any changes to Service Line and Meter Installation**  
2 **Charges?**

3 A. Yes. The Company proposes an increase to each meter size. Staff has reviewed the  
4 Company's proposed service line and meter installation charges and recommends  
5 approval of those charges, as shown in Schedule MJR-22.

6  
7 **Staff's Recommended Water Rate Design**

8 **Q. Please provide a description of Staff's recommended rate design.**

9 A. Staff recommends no increase to the minimum monthly charge for all meter sizes. Staff  
10 recommends maintaining the break-over points contained in present rates. Staff  
11 recommends an increase to commodity rates in second and third tiers (as it applies to 3/4-  
12 inch meters and which represents the first and second tiers for larger meters). Second tier  
13 commodity tier rate would increase by \$0.20 (4.65 percent) from \$4.30 per 1,000 gallons  
14 to \$4.50 per 1,000 gallons. The third tier commodity rates would increase by \$0.40 (8.00  
15 percent) from \$5.00 per 1,000 gallons to \$5.40 per 1,000 gallons. The typical 3/4-inch  
16 meter bill with a median use of 3,088 gallons would increase by \$.02 (.09 percent) from  
17 \$19.78 to \$19.80. Staff's recommended rates are shown in Schedule MJR-22 and the  
18 typical bill analysis for 3/4-inch meter customers is shown in Schedule MJR-23.

19  
20 **Q. Did the Company propose any changes to its Water System Service Charges?**

21 A. Yes. The Company proposes increases of \$5.00 each to: Establishment (\$30.00),  
22 Establishment-After Hours (\$40.00); Reconnection -Delinquent (\$20.00); Reconnection-  
23 Delinquent and After Hours (\$30.00); and a \$2.50 increase to NSF checks (\$15.00).  
24

1 **Q. Please provide a description of Staff's recommended Water System Service Charges.**

2 A. Staff recommends elimination of the Establishment (After Hours) Service Charge and the  
3 Reconnection (After Hours) tariff. Staff does support an after-hour service charge. An  
4 after-hour service charge is appropriate when it is at the customer's request. Such a  
5 charge compensates the utility for additional expenses incurred when providing after-  
6 hours service. Staff recommends the addition of a Service Charge (after hours) tariff in  
7 the amount of \$35.00 and that this charge be in addition to the charge for any utility  
8 service provided after hours at the customer's request. Staff recommends inserting the  
9 words (if correct) after Meter Re-Read and Meter test tariffs. Staff's recommended water  
10 system service charges are shown in Schedule MJR-22.

11  
12 **Q. Did Staff prepare a Schedule showing the average and median monthly bill for  
13 present rates, Company's proposed and Staff's recommended rates?**

14 A. Yes. Staff's Direct Testimony Schedule MJR-23 presents the average and median  
15 monthly bill for present rates, Company's proposed rates and Staff's recommended rates.  
16

17 **Q. What is the impact of Staff's recommended rates on the median customer bill?**

18 A. The typical 3/4-inch median bill with a median usage of 3,088 gallons will increase from  
19 \$19.78 to \$19.80 or \$.02 (.09 percent)  
20

21 **X. SURCHARGES**

22 **Q. Did Cordes Lakes request an amount for surcharges?**

23 A. Yes. The Company requested two surcharges.

1     **Q.     Please describe the surcharges.**

2     A.     The Company presented the surcharges in its September 24, 2012 Additions and Revisions  
3           to the rate application filing. The Company proposed a water loss repair surcharge in the  
4           amount of \$30,000 for a two-year period and a meter replacement surcharge in the amount  
5           of \$10,000 for a three-year period.

6  
7     **Q.     Did the Company provide any support for obtaining surcharge revenues in addition**  
8           **to the revenues typically generated using a rate base/rate of return methodology?**

9     A.     No. The Company did not provide any explanation to support a need for additional  
10           revenues.

11  
12    **Q.     Did the Company incur water loss repair costs in the test year?**

13    A.     Yes. These are normal on-going costs that are already included in the test year operating  
14           expense.

15  
16    **Q.     What is Staff's recommendation?**

17    A.     Staff recommends denying the Company's request for surcharges.

18  
19    **Q.     Does this conclude your testimony?**

20    A.     Yes, it does.



CORDES LAKES WATER COMPANY

Docket No. W-02060A-07-0256

Test Year Ended December 31, 2006

DIRECT TESTIMONY OF Mary J. Rimback

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REVENUE REQUIREMENT

| LINE<br>NO. | DESCRIPTION  | (A)<br>COMPANY<br>ORIGINAL<br>COST | (B)<br>STAFF<br>ORIGINAL<br>COST |
|-------------|--|------------------------------------|----------------------------------|
| 1           | Adjusted Rate Base                                 | \$ 496,789                         | \$ 126,500                       |
| 2           | Adjusted Operating Income (Loss) <sup>1</sup>      | \$ (17,373)                        | \$ 5,146                         |
| 3           | Current Rate of Return (L2 / L1) <sup>2</sup>      | 0.00%                              | 4.07%                            |
| 4           | Required Rate of Return                            | 8.00%                              | 9.10%                            |
| 5           | Required Operating Income (L4 * L1) <sup>3,4</sup> | \$ 37,000                          | \$ 11,512                        |
| 6           | Operating Income Deficiency (L5 - L2) <sup>5</sup> | \$ 68,000                          | \$ 6,365                         |
| 7           | Gross Revenue Conversion Factor                    | None                               | 1.2886                           |
| 8           | Required Revenue Increase (L7 * L6) <sup>6</sup>   | \$ 77,000                          | \$ 8,202                         |
| 9           | Adjusted Test Year Revenue                         | \$ 403,993                         | \$ 420,536                       |
| 10          | Proposed Annual Revenue (L8 + L9) <sup>7</sup>     | \$ 498,366                         | \$ 428,738                       |
| 11          | Required Increase in Revenue (%)                   | 19.06%                             | 1.95%                            |

References:

Column (A): Company Schedule B-1 Rate Base, Revised E-2 (9/24/2012) Income Statement  
Column (B): Staff Schedule MJR-3 & MJR-12

<sup>1</sup> The Company's application (Schedule A-1) uses Net Income as Operating Income.

<sup>2</sup> The Company's rate of return, as filed, is not a mathematical product of Operating Income divided by rate base.

<sup>3</sup> Rate base (\$496,789) times ROR (8.0%) equals \$39,743.

<sup>4</sup> The Company requests a \$30,000 water loss repair surcharge and a \$10,000 meter replacement surcharge.

<sup>5</sup> The Company's amount is not mathematically correct.

<sup>6</sup> The Company's amount is the total of Required Operating Income and both surcharges (\$37,000 + \$30,000 + \$10,000). However, the Company's request for a \$30,000 water loss surcharge only extends for two years and the \$10,000 meter replacement surcharge only extends for three years.

<sup>7</sup> Company's amount represents test year revenue (\$403,993) plus adjusted operating loss (\$17,373) plus required operating income (\$37,000) plus annual water loss surcharge (\$30,000) plus annual meter replacement surcharge (\$10,000).

GROSS REVENUE CONVERSION FACTOR

| LINE NO.   | DESCRIPTION  | (A)        | (B)      | (C)               | (D)      |
|--|--|------------|----------|-------------------|----------|
| <u>Calculation of Gross Revenue Conversion Factor:</u> |  |            |          |                   |          |
| 1  | Revenue  | 100.0000%  |          |                   |          |
| 2  | Uncollectible Factor (Line 11)   | 0.0000%    |          |                   |          |
| 3  | Revenues (L1 - L2)   | 100.0000%  |          |                   |          |
| 4  | Combined Federal and State Tax Rate (Line 17) + Property Tax Factor (Line 22)                        | 22.3951%   |          |                   |          |
| 5  | Subtotal (L3 - L4)   | 77.6049%   |          |                   |          |
| 6  | Revenue Conversion Factor (L1 / L5)  | 1.288578   |          |                   |          |
| <u>Calculation of Uncollectible Factor:</u>            |  |            |          |                   |          |
| 7  | Unity  | 100.0000%  |          |                   |          |
| 8  | Combined Federal and State Tax Rate (Line 17)  | 20.9228%   |          |                   |          |
| 9  | One Minus Combined Income Tax Rate (L7 - L8)   | 79.0772%   |          |                   |          |
| 10   | Uncollectible Rate   | 0.0000%    |          |                   |          |
| 11   | Uncollectible Factor (L9 * L10)  | 0.0000%    |          |                   |          |
| <u>Calculation of Effective Tax Rate:</u>              |  |            |          |                   |          |
| 12   | Operating Income Before Taxes (Arizona Taxable Income)   | 100.0000%  |          |                   |          |
| 13   | Arizona State Income Tax Rate  | 6.9680%    |          |                   |          |
| 14   | Federal Taxable Income (L12 - L13)   | 93.0320%   |          |                   |          |
| 15   | Applicable Federal Income Tax Rate (Line 53)   | 15.0000%   |          |                   |          |
| 16   | Effective Federal Income Tax Rate (L14 x L15)  | 13.9548%   |          |                   |          |
| 17   | Combined Federal and State Income Tax Rate (L13 + L16)   | 20.9228%   |          |                   |          |
| <u>Calculation of Effective Property Tax Factor:</u>   |  |            |          |                   |          |
| 18   | Unity  | 100.0000%  |          |                   |          |
| 19   | Combined Federal and State Tax Rate (Line 17)  | 20.9228%   |          |                   |          |
| 20   | One Minus Combined Income Tax Rate (L18 - L19)   | 79.0772%   |          |                   |          |
| 21   | Property Tax Factor (MJR-17, L24)  | 1.8618%    |          |                   |          |
| 22   | Effective Property Tax Factor (L 21 * L 22)  | 1.4723%    |          |                   |          |
| 23   | Combined Federal and State Tax and Property Tax Rate (L17+L22)                                       |            | 22.3951% |                   |          |
| 24   | Required Operating Income (Schedule MJR-1, Line 5)   | \$ 11,512  |          |                   |          |
| 25   | Adjusted Test Year Operating Income (Loss) (Schedule MJR-11, Line 40)                                | \$ 5,146   |          |                   |          |
| 26   | Required Increase in Operating Income (L24 - L25)  |            | \$ 6,365 |                   |          |
| 27   | Income Taxes on Recommended Revenue (Col. (D), L52)  | \$ 3,046   |          |                   |          |
| 28   | Income Taxes on Test Year Revenue (Col. (B), L52)  | \$ 1,362   |          |                   |          |
| 29   | Required Increase in Revenue to Provide for Income Taxes (L27 - L28)                                 |            | \$ 1,684 |                   |          |
| 30   | Recommended Revenue Requirement (Schedule MJR-1, Line 10)  | \$ 428,738 |          |                   |          |
| 31   | Uncollectible Rate (Line 10)   | 0.0000%    |          |                   |          |
| 32   | Uncollectible Expense on Recommended Revenue (L24 * L25)   | \$ -       |          |                   |          |
| 33   | Adjusted Test Year Uncollectible Expense   | \$ -       |          |                   |          |
| 34   | Required Increase in Revenue to Provide for Uncollectible Exp. (L32 - L33)                           |            | \$ -     |                   |          |
| 35   | Property Tax with Recommended Revenue (MJR-17, L19)  | \$ 23,581  |          |                   |          |
| 36   | Property Tax on Test Year Revenue (MJR-17, L 16)   | \$ 23,429  |          |                   |          |
| 37   | Increase in Property Tax Due to Increase in Revenue (MJR-17, L22)                                    |            | \$ 153   |                   |          |
| 38   | Total Required Increase in Revenue (L26 + L29 + L34+L37)   |            | \$ 8,202 |                   |          |
| <u>Calculation of Income Tax:</u>                      |  |            |          |                   |          |
|  |  | Test Year  |          | STAFF Recommended |          |
| 39   | Revenue (Schedule MJR-11, Col.(C), Line 5 & Sch. MJR-1, Col. (B), Line 10)                           | \$ 420,536 | \$ 8,202 | \$ 428,738        |          |
| 40   | Operating Expenses Excluding Income Taxes  | \$ 414,028 |          | \$ 414,181        |          |
| 41   | Synchronized Interest (L47)  | \$ -       |          | \$ -              |          |
| 42   | Arizona Taxable Income (L36 - L317- L38)   | \$ 6,508   |          | \$ 14,557         |          |
| 43   | Arizona State Income Tax Rate  | 6.9680%    |          | 6.9680%           |          |
| 44   | Arizona Income Tax (L39 x L40)   | \$ 453     |          | \$ 1,014          |          |
| 45   | Federal Taxable Income (L42- L43)  | \$ 6,054   |          | \$ 13,543         |          |
| 46   | Federal Tax on First Income Bracket (\$1 - \$50,000) @ 15%   | \$ 908     |          | \$ 2,031          |          |
| 47   | Federal Tax on Second Income Bracket (\$50,001 - \$75,000) @ 25%                                     | \$ -       |          | \$ -              |          |
| 48   | Federal Tax on Third Income Bracket (\$75,001 - \$100,000) @ 34%                                     | \$ -       |          | \$ -              |          |
| 49   | Federal Tax on Fourth Income Bracket (\$100,001 - \$335,000) @ 39%                                   | \$ -       |          | \$ -              |          |
| 50   | Federal Tax on Fifth Income Bracket (\$335,001 - \$10,000,000) @ 34%                                 | \$ -       |          | \$ -              |          |
| 51   | Total Federal Income Tax   | \$ 908     |          | \$ 2,031          |          |
| 52   | Combined Federal and State Income Tax (L44 + L51)  | \$ 1,362   |          | \$ 3,046          |          |
| 53   | Applicable Federal Income Tax Rate [Col. (D), L51 - Col. (B), L51] / [Col. (C), L45 - Col. (A), L45] |            |          |                   | 15.0000% |
| <u>Calculation of Interest Synchronization:</u>        |  |            |          |                   |          |
| 54   | Rate Base (Schedule MJR-3, Col. (C), Line 17)  | \$ 126,500 |          |                   |          |
| 55   | Weighted Average Cost of Debt  | 0.00%      |          |                   |          |
| 56   | Synchronized Interest (L54 X L56)  | \$ -       |          |                   |          |

**RATE BASE - ORIGINAL COST**

| LINE<br>NO.                                   | (A)<br>COMPANY<br>AS<br>FILED | (B)<br>STAFF<br>ADJUSTMENTS REF | (C)<br>STAFF<br>AS<br>ADJUSTED |
|---|-------------------------------|---------------------------------|--------------------------------|
| 1 Plant in Service                            | \$ 601,634                    | \$ 535,389                      | \$ 1,137,023                   |
| 2 Less: Accumulated Depreciation              | 139,712                       | 755,284                         | 894,996                        |
| 3 Net Plant in Service                        | <u>\$ 461,922</u>             | <u>\$ (219,895)</u>             | <u>\$ 242,027</u>              |
| <u>LESS:</u>                                  |                               |                                 |                                |
| 4 Contributions in Aid of Construction (CIAC) | \$ -                          | \$ 76,247                       | \$ 76,247                      |
| 5 Less: Accumulated Amortization              | -                             | -                               | -                              |
| 6 Net CIAC                                    | -                             | 76,247                          | 76,247                         |
| 7 Advances in Aid of Construction (AIAC)      | 21,110                        | -                               | 21,110                         |
| 8 Customer Deposits                           | 18,170                        | -                               | 18,170                         |
| 9 Deterred Income Tax Liabilites              | -                             | -                               | -                              |
| <u>ADD:</u>                                   |                               |                                 |                                |
| 10 Unamortized Finance Charges                | -                             | -                               | -                              |
| 11 Deferred Tax Assets                        | -                             | -                               | -                              |
| 12 Working Capital                            | 74,147                        | (74,147)                        | -                              |
| 17 Original Cost Rate Base                    | <u>\$ 496,789</u>             | <u>\$ (370,289)</u>             | <u>\$ 126,500</u>              |

References:

Column (A), Company Schedule B-1,  
Column (B): Schedule MJR-4  
Column (C): Column (A) + Column (B)

SUMMARY OF ORIGINAL COST RATE BASE ADJUSTMENTS

| LINE NO.                 | ACCT. NO.                                   | DESCRIPTION                          | [A]<br>COMPANY AS FILED | [B]<br>Rec & Res Land ADJ #1<br>Ref. Sch MJR-5 | [C]<br>Used & Useful ADJ #2<br>Ref. Sch MJR-6 | [D]<br>Net Plant Additions ADJ #3<br>Ref. Sch MJR-7 | [E]<br>Acc Deprec ADJ #4<br>Ref. Sch MJR-8 | [F]<br>Recognize CIAC ADJ #5<br>Ref. Sch MJR-9 | [G]<br>Working Capital ADJ #6<br>Ref. Sch MJR-10 | [H]<br>STAFF ADJUSTED |
|--------------------------|---|--------------------------------------|-------------------------|--|---|---|--|--|--|-----------------------|
| <b>PLANT IN SERVICE:</b> |   |                                      |                         |  |   |   |  |  |  |                       |
| 1                        |   | Organization                         | \$ -                    | \$ -   | \$ -  | \$ -  | \$ -                                       | \$ -   | \$ -   | -                     |
| 2                        | 301   | Franchises                           | -                       | -  | -   | -   | -  | -  | -  | -                     |
| 3                        | 302   | Land and Land Rights                 | 35,665                  | (35,665)                                       | -   | -   | -  | -  | -  | -                     |
| 4                        | 303   | Structures & Improvements            | 6,657                   | -  | -   | -   | -  | -  | -  | 6,657                 |
| 5                        | 304   | Collecting & Impounding Reservoirs   | -                       | -  | -   | -   | -  | -  | -  | -                     |
| 6                        | 305   | Lakes, Rivers, Other Intakes         | -                       | -  | -   | -   | -  | -  | -  | -                     |
| 7                        | 306   | Wells and Springs                    | 167,348                 | -  | -   | -   | -  | -  | -  | 167,348               |
| 8                        | 307   | Infiltration Galleries and Tunnels   | -                       | -  | -   | -   | -  | -  | -  | -                     |
| 9                        | 308   | Supply Mains                         | -                       | -  | -   | -   | -  | -  | -  | -                     |
| 10                       | 309   | Power Generation Equipment           | -                       | -  | -   | -   | -  | -  | -  | -                     |
| 11                       | 310   | Pumping Equipment                    | -                       | -  | -   | -   | -  | -  | -  | -                     |
| 12                       | 311   | Water Treatment Plant                | 26,588                  | -  | -   | -   | -  | -  | -  | 26,588                |
| 13                       | 320   | Distribution Reservoirs & Standpipes | 141,632                 | -  | -   | -   | -  | -  | -  | 141,632               |
| 14                       | 330   | Transmission & Distribution Mains    | 15,599                  | -  | 582,940                                       | 3,898   | -  | -  | -  | 581,937               |
| 15                       | 331   | Services                             | -                       | -  | 19,350  | (16,025)  | -  | -  | -  | 19,350                |
| 16                       | 333   | Meters & Meter Installation          | 70,842                  | -  | -   | -   | -  | -  | -  | 54,817                |
| 17                       | 334   | Hydrants                             | -                       | -  | -   | -   | -  | -  | -  | -                     |
| 18                       | 335   | Backflow Prevention Devices          | -                       | -  | -   | -   | -  | -  | -  | -                     |
| 19                       | 336   | Other Plant & Misc. Equipment        | 58,315                  | -  | -   | 1,235   | -  | -  | -  | 60,550                |
| 20                       | 339   | Office Furniture & Equipment         | 7,027                   | -  | -   | (926)   | -  | -  | -  | 6,101                 |
| 21                       | 340   | Transportation Equipment             | 71,461                  | -  | -   | -   | -  | -  | -  | 71,461                |
| 22                       | 341   | Stores Equipment                     | -                       | -  | -   | -   | -  | -  | -  | -                     |
| 23                       | 342   | Tools, Ship & Garage Equipment       | -                       | -  | -   | -   | -  | -  | -  | -                     |
| 24                       | 343   | Laboratory Equipment                 | -                       | -  | -   | -   | -  | -  | -  | -                     |
| 25                       | 344   | Power Operated Equipment             | -                       | -  | -   | -   | -  | -  | -  | -                     |
| 26                       | 345   | Communication Equipment              | -                       | -  | -   | -   | -  | -  | -  | -                     |
| 27                       | 346   | Miscellaneous Equipment              | -                       | -  | -   | -   | -  | -  | -  | -                     |
| 28                       | 347   | Other Tangible Plant                 | -                       | -  | 582   | -   | -  | -  | -  | 582                   |
| 29                       | 348   |                                      | -                       | -  | -   | -   | -  | -  | -  | -                     |
| 30                       |   |                                      | 601,634                 | (35,665)                                       | 582,872                                       | (11,818)  | -  | -  | -  | 1,137,023             |
| 31                       |   |                                      |                         |  |   |   |  |  |  |                       |
| 32                       | Add:  | Post Test Year Plant                 | -                       | -  | -   | -   | -  | -  | -  | -                     |
| 33                       |   | General Office Plant Allocation      | -                       | -  | -   | -   | -  | -  | -  | -                     |
| 34                       |   |                                      | -                       | -  | -   | -   | -  | -  | -  | -                     |
| 35                       | Less:                                       |                                      | -                       | -  | -   | -   | -  | -  | -  | -                     |
| 36                       |   |                                      | -                       | -  | -   | -   | -  | -  | -  | -                     |
| 37                       |   |                                      | -                       | -  | -   | -   | -  | -  | -  | -                     |
| 38                       |   |                                      | -                       | -  | -   | -   | -  | -  | -  | -                     |
| 39                       | Total Plant In Service                      |                                      | \$ 601,634              | \$ (35,665)                                    | \$ 582,872                                    | \$ (11,818)   | \$ -                                       | \$ -   | \$ -   | \$ 1,137,023          |
| 40                       | Less: Accumulated Depreciation              |                                      | 138,712                 | -  | -   | -   | 755,284                                    | -  | -  | 894,996               |
| 41                       |   |                                      | \$ 461,922              | \$ (35,665)                                    | \$ 582,872                                    | \$ (11,818)   | \$ (755,284)                               | \$ -   | \$ -   | \$ 242,027            |
| 42                       | Net Plant In Service (L59 - L 60)           |                                      |                         |  |   |   |  |  |  |                       |
| 43                       |   |                                      |                         |  |   |   |  |  |  |                       |
| 44                       | LESS:                                       |                                      |                         |  |   |   |  |  |  |                       |
| 45                       | Contributions in Aid of Construction (CIAC) |                                      |                         |  |   |   |  |  |  |                       |
| 46                       | Less: Accumulated Amortization              |                                      |                         |  |   |   |  |  |  |                       |
| 47                       | Net CIAC (L25 - L26)                        |                                      |                         |  |   |   |  |  |  |                       |
| 48                       | Advances in Aid of Construction (AIAC)      |                                      |                         |  |   |   |  |  |  |                       |
| 49                       | Customer Deposits                           |                                      | 21,110                  | -  | -   | -   | -  | 76,247   | -  | 76,247                |
| 50                       | Deferred Tax Liabilities                    |                                      | 18,170                  | -  | -   | -   | -  | -  | -  | 21,110                |
| 51                       |   |                                      |                         |  |   |   |  |  |  | 18,170                |
| 52                       | ADD:  |                                      |                         |  |   |   |  |  |  |                       |
| 53                       | Unamortized Finance Charges                 |                                      | -                       | -  | -   | -   | -  | -  | -  | -                     |
| 54                       | Deferred Tax Assets                         |                                      | -                       | -  | -   | -   | -  | -  | -  | -                     |
| 55                       | Working Capital                             |                                      | 74,147                  | -  | -   | -   | -  | -  | (74,147)   | -                     |
| 56                       |   |                                      |                         |  |   |   |  |  |  |                       |
| 57                       | Original Cost Rate Base                     |                                      | \$ 496,769              | \$ (35,665)                                    | \$ 582,872                                    | \$ (11,818)   | \$ (755,284)                               | \$ (76,247)                                    | \$ (74,147)                                      | \$ 126,500            |

CORDES LAKES WATER COMPANY  
Docket No. W-02060A-12-0356  
Test Year Ended December 31, 2011

MJR - 5

**RATE BASE ADJUSTMENT #1 - REMOVE NON-USED AND USEFUL LAND**

| Line<br>No. | DESCRIPTION | [A]                 | [B]                  | [C]                  |
|-------------|-------------|---------------------|----------------------|----------------------|
|             |             | COMPANY<br>PROPOSED | STAFF<br>ADJUSTMENTS | STAFF<br>RECOMMENDED |
| 1           | Land        | \$ 35,665           | \$ (35,665)          | \$ -                 |

References:

Col [A]: Company Schedule B-1  
Col [B]: Col [C] - Col [A]  
Col [C]: MJR Testimony

CORDES LAKES WATER COMPANY  
Docket No. W-02060A-12-0356  
Test Year Ended December 31, 2011

MJR-6

**RATE BASE ADJUSTMENT #2 REINSTATE USED AND USEFULL PLANT**

| LINE<br>NO. | ACCT<br>NO. | DESCRIPTION                       | [A]                                    | [B]   | [C]                  |
|-------------|-------------|-----------------------------------|--|---|----------------------|
|             |             |                                   | COMPANY<br>2006 Balance<br>AS<br>FILED | Decision No.<br>70170<br>STAFF<br>ADJUSTMENTS | STAFF<br>RECOMMENDED |
| 1           | 311         | Pumping Equipment                 | \$ 10,558                              | \$ -  | \$ 10,558            |
| 2           | 331         | Transmission & Distribution Mains | 9,444                                  | 562,940                                       | 572,384              |
| 3           | 333         | Services                          | -                                      | 19,350  | 19,350               |
| 4           | 347         | Miscellaneous Equipment           | -                                      | 582   | 582                  |
| 5           |             | Totals                            | \$ 20,002                              | \$ 582,872                                    | \$ 602,874           |

[A]: Company Schedule E-5 and Detail 11/8/2012

[B]: Col [C] - Col [A]

[C]:MJR Testimony

CORDES LAKES WATER COMPANY  
Docket No. W-02060A-12-0356  
Test Year Ended December 31, 2011

MJR-7

**RATE BASE ADJUSTMENT #3 NET PLANT ADDITIONS**

| LINE<br>NO. | ACCT<br>NO. | DESCRIPTION                       | [A]                               | [B]                  | [C]                  |
|-------------|-------------|-----------------------------------|-----------------------------------|----------------------|----------------------|
|             |             |                                   | COMPANY<br>Additions<br>11/8/2012 | STAFF<br>ADJUSTMENTS | STAFF<br>RECOMMENDED |
| 1           | 331         | Transmission & Distribution Mains | \$ 5,655                          | \$ 3,898             | \$ 9,553             |
| 2           | 334         | Meters & Meter Installation       | 35,253                            | (16,025)             | 19,228               |
| 3           | 339         | Other Plant & Misc. Equipment     | 5,166                             | 1,235                | 6,401                |
| 4           | 340         | Office Furniture & Equipment      | 2,537                             | (926)                | 1,611                |
| 5           |             | Totals                            | <u>\$ 48,611</u>                  | <u>\$ (11,818)</u>   | <u>\$ 36,793</u>     |

[A]: Company Schedule E-5 and Detail provided 11/8/2012

[B]: Col [C] - Col [A]

[C]: MJR Testimony



CORDES LAKES WATER COMPANY  
Docket No. W-02060A-12-0356  
Test Year Ended December 31, 2011

MJR-8

**RATE BASE ADJUSTMENT #4 - ACCUMULATED DEPRECIATION**

| LINE<br>NO. | DESCRIPTION              | [A]<br>COMPANY<br>PROPOSED | [B]<br>STAFF<br>ADJUSTMENTS | [C]<br>STAFF<br>RECOMMENDED |
|-------------|--------------------------|----------------------------|-----------------------------|-----------------------------|
| 1           | Accumulated Depreciation | <u>\$ 139,712</u>          | <u>\$ 755,284</u>           | <u>\$ 894,996</u>           |

References:

Col [A]: Company Schedule B-1

Col [B]: Col [C] - Col [A]

Col [C]: MJR Testimony

CORDES LAKES WATER COMPANY  
Docket No. W-02060A-12-0356  
Test Year Ended December 31, 2011

MJR-9

**RATE BASE ADJUSTMENT #5 - CIAC**

| LINE<br>NO. | DESCRIPTION                          | [A]<br>COMPANY<br>PROPOSED | [B]<br>STAFF<br>ADJUSTMENTS | [C]<br>STAFF<br>RECOMMENDED |
|-------------|--------------------------------------|----------------------------|-----------------------------|-----------------------------|
|             |                                      | \$ -                       | \$ 76,247                   | \$ 76,247                   |
| 1           | Contributions in aid of construction |                            |                             |                             |

References:

Col [A]: Company Schedule B-1

Col [B]: Col [C] - Col [A]

Col [C]: Decision 70170

CORDES LAKES WATER COMPANY  
Docket No. W-02060A-12-0356  
Test Year Ended December 31, 2011

MJR-10

**RATE BASE ADJUSTMENT #6 - WORKING CAPITAL ALLOWANCE**

| LINE<br>NO. | DESCRIPTION               | [A]<br>COMPANY<br>PROPOSED | [B]<br>STAFF<br>ADJUSTMENTS | [C]<br>STAFF<br>RECOMMENDED |
|-------------|---------------------------|----------------------------|-----------------------------|-----------------------------|
|             |                           | \$ 74,147                  | \$ (74,147)                 | \$ -                        |
| 1           | Working Capital Allowance |                            |                             |                             |

References:

Col [A]: Company Schedule B-1  
Col [B]: Col [C] - Col [A]  
Col [C]: MJR Testimony

OPERATING INCOME STATEMENT - ADJUSTED TEST YEAR AND STAFF RECOMMENDED

MJR-11

| LINE NO. | DESCRIPTION                                   | [A]<br>COMPANY<br>ADJUSTED<br>TEST YEAR<br>AS FILED | [B]<br>STAFF<br>TEST YEAR<br>ADJUSTMENTS | [C]<br>STAFF<br>TEST YEAR<br>AS<br>ADJUSTED | [D]<br>STAFF<br>PROPOSED<br>CHANGES | [E]<br>STAFF<br>RECOMMENDED |
|----------|---|---|--|---|-------------------------------------|-----------------------------|
| 1        | <u>REVENUES:</u>                              |   |  |   |                                     |                             |
| 2        | Metered Water Sales                           | \$ 403,353  | \$ 9,093                                 | \$ 412,446                                  | \$ 8,202                            | \$ 420,648                  |
| 3        | Received for Contract Labor                   | 167,692   | (167,692)                                | -   | -                                   | -                           |
| 4        | Miscellaneous Revenue                         | 640   | 7,450                                    | 8,090                                       | -                                   | 8,090                       |
| 5        | <b>Total Operating Revenues</b>               | <b>\$ 571,685</b>                                   | <b>\$ (151,149)</b>                      | <b>\$ 420,536</b>                           | <b>\$ 8,202</b>                     | <b>\$ 428,738</b>           |
| 6        | <u>OPERATING EXPENSES:</u>                    |   |  |   |                                     |                             |
| 7        | Payroll                                       | \$ 309,095  | \$ (167,692)                             | \$ 141,403                                  | \$ -                                | \$ 141,403                  |
| 10       | Contract Labor                                | 10,312  | -  | 10,312                                      | -                                   | 10,312                      |
| 11       | Employee Benefits                             | 29,422  | -  | 29,422                                      | -                                   | 29,422                      |
| 13       | Purchased Power                               | 31,723  | -  | 31,723                                      | -                                   | 31,723                      |
| 14       | Repairs and Maintenance                       | 12,650  | 1,012                                    | 13,662                                      | -                                   | 13,662                      |
| 15       | Office Supplies and Expense                   | 14,491  | -  | 14,491                                      | -                                   | 14,491                      |
| 16       | Outside Services - Accounting                 | 3,660   | -  | 3,660                                       | -                                   | 3,660                       |
| 17       | Outside Services - Billing Services           | 24,118  | -  | 24,118                                      | -                                   | 24,118                      |
| 18       | Outside Services - Computer Programming       | 3,511   | -  | 3,511                                       | -                                   | 3,511                       |
| 19       | Water Testing                                 | 1,806   | 4,052                                    | 5,858                                       | -                                   | 5,858                       |
| 20       | Rents   | 28,150  | -  | 28,150                                      | -                                   | 28,150                      |
| 21       | Transportation Expenses                       | 8,995   | -  | 8,995                                       | -                                   | 8,995                       |
| 22       | Insurance - General Liability                 | 33,033  | -  | 33,033                                      | -                                   | 33,033                      |
| 23       | Insurance - Health and Life                   | 14,936  | -  | 14,936                                      | -                                   | 14,936                      |
| 24       | Rate Case Expense                             | -   | -  | -   | -                                   | -                           |
| 25       | Regulatory Expense                            | -   | -  | -   | -                                   | -                           |
| 26       | Misc Expense - Permits                        | 2,000   | -  | 2,000                                       | -                                   | 2,000                       |
| 27       | Misc Expense - Travel                         | -   | -  | -   | -                                   | -                           |
| 28       | Misc. Expenses - Utilities except Electricity | 3,391   | -  | 3,391                                       | -                                   | 3,391                       |
| 29       | Misc. Expenses - Bank Charges                 | 1,304   | -  | 1,304                                       | -                                   | 1,304                       |
| 30       | Misc. Expenses - Payroll Services             | 859   | -  | 859   | -                                   | 859                         |
| 31       | Depreciation Expense                          | 37,195  | (18,648)                                 | 18,547                                      | -                                   | 18,547                      |
| 32       | Payroll Taxes                                 | 175   | -  | 175   | -                                   | 175                         |
| 33       | Taxes other than Income (Sales Tax)           | -   | -  | -   | -                                   | -                           |
| 34       | Property Taxes                                | 18,187  | 5,242                                    | 23,429                                      | 153                                 | 23,581                      |
| 35       | Income Tax                                    | 45  | 1,317                                    | 1,362                                       | 1,684                               | 3,046                       |
| 36       | Interest Income                               | -   | -  | -   | -                                   | -                           |
| 37       | Interest Expense                              | -   | 1,050                                    | 1,050                                       | -                                   | 1,050                       |
| 38       |   |   |  |   |                                     |                             |
| 39       | <b>Total Operating Expenses</b>               | <b>\$ 589,058</b>                                   | <b>\$ (173,668)</b>                      | <b>\$ 415,390</b>                           | <b>\$ 1,837</b>                     | <b>\$ 417,227</b>           |
| 40       | <b>Operating Income (Loss)</b>                | <b>\$ (17,373)</b>                                  | <b>\$ 22,519</b>                         | <b>\$ 5,146</b>                             | <b>\$ 6,365</b>                     | <b>\$ 11,512</b>            |

References:

Column (A): Company Revised Schedule E-2, 11/8/2012  
Column (B): Schedule MJR-12  
Column (C): Column (A) + Column (B)  
Column (D): Schedules MJR-1 and MJR-2  
Column (E): Column (C) + Column (D)

SUMMARY OF OPERATING INCOME STATEMENT ADJUSTMENTS - TEST YEAR

| LINE NO. | DESCRIPTION                                   | (A)<br>COMPANY<br>AS FILED<br>9/24/2012 | (B)<br>Contract Labor<br>ADJ #1<br>[Ref. Sch. MUR-13] | (C)<br>Repairs & Maint<br>ADJ #2<br>[Ref. Sch. MUR-14] | (D)<br>Metered Rev<br>ADJ #3<br>[Ref. Sch. MUR-15] | (E)<br>Depr. Exp.<br>ADJ #4<br>[Ref. Sch. MUR-16] | (F)<br>Prop. Tax<br>ADJ #5<br>[Ref. Sch. MUR-17] | (G)<br>Inc. Tax<br>ADJ #6<br>[Ref. Sch. MUR-18] | (H)<br>Water Testing<br>ADJ #7<br>[Ref. Sch. MUR-19] | (I)<br>Unmetered Rev<br>ADJ #8<br>[Ref. Sch. MUR-20] | (J)<br>ADJ #9<br>[Ref. Sch. MUR-21] | (K)<br>STAFF<br>ADJUSTED |
|----------|---|---|---|--|--|---|--|---|--|--|-------------------------------------|--------------------------|
| 1        | REVENUES:                                     |   |   |  |  |   |  |   |  |  |                                     |                          |
| 2        | Metered Revenue                               | \$ 403,353                              |   |  | \$ 9,093   |   |  |   |  |  |                                     | 412,446                  |
| 3        | Received for Contract Labor                   | \$ 167,692                              | \$ (167,692)  |  |  |   |  |   |  |  |                                     |                          |
| 4        | Other Water Revenue                           | \$ 840                                  |   |  |  |   |  |   |  |  |                                     |                          |
| 5        | Total Operating Revenues                      | \$ 571,685                              | \$ (167,692)  |  | \$ 9,093   |   |  |   |  | \$ 7,450   |                                     | \$ 420,536               |
| 6        | OPERATING EXPENSES:                           |   |   |  |  |   |  |   |  |  |                                     |                          |
| 7        | Payroll                                       | \$ 309,095                              |   |  |  |   |  |   |  |  |                                     | \$ 141,403               |
| 8        | Contract Labor                                | 10,312                                  | \$ (107,692)  |  |  |   |  |   |  |  |                                     | 10,312                   |
| 9        | Employee Benefits                             | 29,422                                  |   |  |  |   |  |   |  |  |                                     | 29,422                   |
| 10       | Purchased Power                               | 31,723                                  |   |  |  |   |  |   |  |  |                                     | 31,723                   |
| 11       | Repairs and Maintenance                       | 12,650                                  |   | 1,012  |  |   |  |   |  |  |                                     | 13,662                   |
| 12       | Office Supplies and Expense                   | 14,491                                  |   |  |  |   |  |   |  |  |                                     | 14,491                   |
| 13       | Outside Services - Accounting                 | 3,690                                   |   |  |  |   |  |   |  |  |                                     | 3,690                    |
| 14       | Outside Services - Billing Services           | 24,118                                  |   |  |  |   |  |   |  |  |                                     | 24,118                   |
| 15       | Outside Services - Computer Programming       | 3,511                                   |   |  |  |   |  |   |  |  |                                     | 3,511                    |
| 16       | Water Testing                                 | 1,806                                   |   |  |  |   |  |   |  |  |                                     | 1,806                    |
| 17       | Rents   | 28,150                                  |   |  |  |   |  |   | 4,052  |  |                                     | 28,150                   |
| 18       | Transportation Expenses                       | 8,695                                   |   |  |  |   |  |   |  |  |                                     | 8,695                    |
| 19       | Medical Insurance                             | 33,033                                  |   |  |  |   |  |   |  |  |                                     | 33,033                   |
| 20       | Liability Insurance                           | 14,936                                  |   |  |  |   |  |   |  |  |                                     | 14,936                   |
| 21       | Rate Case Expense                             | -                                       |   |  |  |   |  |   |  |  |                                     | -                        |
| 22       | Regulatory Expenses                           | -                                       |   |  |  |   |  |   |  |  |                                     | -                        |
| 23       | Misc Expense - Permits                        | 2,000                                   |   |  |  |   |  |   |  |  |                                     | 2,000                    |
| 24       | Misc Expense - Travel                         | -                                       |   |  |  |   |  |   |  |  |                                     | -                        |
| 25       | Misc. Expenses - Utilities except Electricity | 3,391                                   |   |  |  |   |  |   |  |  |                                     | 3,391                    |
| 26       | Misc. Expenses - Bank Charges                 | 1,304                                   |   |  |  |   |  |   |  |  |                                     | 1,304                    |
| 27       | Misc. Expenses - Payroll Services             | 850                                     |   |  |  |   |  |   |  |  |                                     | 850                      |
| 28       | Depreciation Expense                          | 37,195                                  |   |  |  |   |  |   |  |  |                                     | 37,195                   |
| 29       | Payroll Taxes                                 | 175                                     |   |  |  |   |  |   |  |  |                                     | 175                      |
| 30       | Taxes other than Income (Sales Tax)           | -                                       |   |  |  |   |  |   |  |  |                                     | -                        |
| 31       | Property Taxes                                | 18,187                                  |   |  |  |   |  |   |  |  |                                     | 18,187                   |
| 32       | Income Tax                                    | 45                                      |   |  |  |   | 5,242  |   |  |  |                                     | 5,242                    |
| 33       | Interest Income                               | -                                       |   |  |  |   |  |   |  |  |                                     | -                        |
| 34       | Interest Expense                              | -                                       |   |  |  |   |  |   |  |  |                                     | -                        |
| 35       | Total Operating Expenses                      | \$ 589,058                              | \$ (167,692)  | \$ 1,012   | \$ 9,093   | \$ (18,048)                                       | \$ 5,242   | \$ 1,317  | \$ 4,052   | \$ 7,450   | \$ 1,050                            | \$ 415,300               |
| 36       | Operating Income (Loss)                       | \$ (17,373)                             |   | \$ (1,012)   |  | \$ 18,048   | \$ (5,242)                                       | \$ (1,317)                                      | \$ (4,052)   |  | \$ (1,050)                          | \$ 5,166                 |

References:

Column (A): Company Revised Schedule E-2, 11/8/2012

OPERATING INCOME ADJUSTMENT #1 - REMOVE NON-UTILITY REVENUES AND EXPENSES FOR CONTRACT LABOR

| LINE<br>NO. | DESCRIPTION             | [A]<br>COMPANY<br>PROPOSED | [B]<br>STAFF<br>ADJUSTMENTS | [C]<br>STAFF<br>RECOMMENDED |
|-------------|-------------------------|----------------------------|-----------------------------|-----------------------------|
| 1           | Contract Labor Revenue  | \$ 167,692                 | \$ (167,692)                | \$ -                        |
| 2           | Payroll                 | \$ 167,692                 | \$ (167,692)                | \$ -                        |
| 3           | Operating Income Affect | \$ -                       | \$ -                        | \$ -                        |

References:

Col [A]: Company Schedule E-2

Col [B]: Col [C] - Col [A]

Col [C]: MJR Testimony

CORDES LAKES WATER COMPANY  
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Test Year Ended December 31, 2011

MJR-14

OPERATING INCOME ADJUSTMENT #2 - NORMALIZATION OF REPAIRS & MAINTENANCE EXPENSES

| LINE |   | [A]<br>COMPANY | [B]<br>STAFF | [C]<br>STAFF |
|------|---|----------------|--------------|--------------|
| NO.  | DESCRIPTION                                       | PROPOSED       | ADJUSTMENTS  | RECOMMENDED  |
| 1    | Repairs & Maintenance                             | \$ 12,650      | \$ 1,012     | \$ 13,662    |
| 2    | Repairs & Maintenance - Company's Test Year: 2011 |                |              | \$ 12,650    |
| 3    | Repairs & Maintenance - 2010 Annual Stmt          |                |              | 17,221       |
| 4    | Repairs & Maintenance - 2009 Annual Stmt          |                |              | 11,116       |
| 5    | Repairs & Maintenance expenses, past three years  |                |              | \$ 40,987    |
| 6    | Average Repair & Maintenance expense (line 5/3)   |                |              | \$ 13,662    |

References:

Col [A]: Company Schedule C-1

Col [B]: Col [C] - Col [A]

Col [C]: Normalized Repairs & Maintenance Expense Col [C] L6.

CORDES LAKES WATER COMPANY  
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Test Year Ended December 31, 2011

MJR-15

OPERATING INCOME ADJUSTMENT #3 - METERED REVENUE

| LINE<br>NO. | DESCRIPTION     | [A]<br>COMPANY<br>PROPOSED | [B]<br>STAFF<br>ADJUSTMENTS | [C]<br>STAFF<br>RECOMMENDED |
|-------------|-----------------|----------------------------|-----------------------------|-----------------------------|
| 1           | Metered Revenue | \$ 403,353                 | \$ 9,093                    | \$ 412,446                  |

References:

Col [A]: Company Schedule E-2 Revised 9/24/2012

Col [B]: Col [C] - Col [A]

Col [C]: MJR Testimony

Bill Count Revenue

|                |            |
|----------------|------------|
| 3/4 inch Meter | \$ 404,597 |
| 1 inch Meter   | 2,397      |
| 2 inch Meter   | 5,452      |
| Subtotal       | \$ 412,446 |



OPERATING INCOME ADJUSTMENT #4 - DEPRECIATION EXPENSE

| Line No.                | ACCT NO. | DESCRIPTION  | [A]<br>AMOUNT | Depreciable Amount | [B]<br>Projected RATE | [C]<br>EXPENSE |
|-------------------------|----------|--|---------------|--------------------|-----------------------|----------------|
| <b>Plant In Service</b> |          |  |               |                    |                       |                |
| 1                       | 301      | Organization   | \$ -          | \$ -               | 0.00%                 | \$ -           |
| 2                       | 302      | Franchises   | -             | -                  | 0.00%                 | -              |
| 3                       | 303      | Land and Land Rights   | -             | -                  | 0.00%                 | -              |
| 4                       | 304      | Structures & Improvements  | 6,657         | 4,400              | 3.33%                 | 147            |
| 5                       | 305      | Collecting & Impounding Reservoirs   | -             | -                  | 2.50%                 | -              |
| 6                       | 306      | Lakes, Rivers, Other Intakes   | -             | -                  | 2.50%                 | -              |
| 7                       | 307      | Wells and Springs  | 167,348       | 151,979            | 3.33%                 | 5,061          |
| 8                       | 308      | Infiltration Galleries and Tunnels   | -             | -                  | 6.67%                 | -              |
| 9                       | 309      | Supply Mains   | -             | -                  | 2.00%                 | -              |
| 10                      | 310      | Power Generation Equipment   | -             | -                  | 5.00%                 | -              |
| 11                      | 311      | Pumping Equipment  | 26,588        | 16,030             | 12.50%                | 2,004          |
| 12                      | 320      | Water Treatment Plant  | -             | -                  | 3.33%                 | -              |
| 13                      | 330      | Distribution Reservoirs & Standpipes   | 141,632       | 94,458             | 2.22%                 | 2,097          |
| 14                      | 331      | Transmission & Distribution Mains  | 581,937       | 19,442             | 2.00%                 | 389            |
| 15                      | 333      | Services   | 19,350        | -                  | 3.33%                 | -              |
| 16                      | 334      | Meters & Meter Installation  | 54,817        | 47,078             | 8.33%                 | 3,922          |
| 17                      | 335      | Hydrants   | -             | -                  | 2.00%                 | -              |
| 18                      | 336      | Backflow Prevention Devices  | -             | -                  | 6.67%                 | -              |
| 19                      | 339      | Other Plant & Misc. Equipment  | 60,550        | 60,550             | 6.67%                 | 4,039          |
| 20                      | 340      | Office Furniture & Equipment   | 6,101         | 6,101              | 6.67%                 | 407            |
| 21                      | 341      | Transportation Equipment   | 71,461        | 2,412              | 20.00%                | 482            |
| 22                      | 342      | Stores Equipment   | -             | -                  | 4.00%                 | -              |
| 23                      | 343      | Tools, Shop & Garage Equipment   | -             | -                  | 5.00%                 | -              |
| 24                      | 344      | Laboratory Equipment   | -             | -                  | 10.00%                | -              |
| 25                      | 345      | Power Operated Equipment   | -             | -                  | 5.00%                 | -              |
| 26                      | 346      | Communication Equipment  | -             | -                  | 10.00%                | -              |
| 27                      | 347      | Miscellaneous Equipment  | 582           | -                  | 10.00%                | -              |
| 28                      | 348      | Other Tangible Plant   | -             | -                  | 0.00%                 | -              |
| 29                      |          | Subtotal General   | \$ 1,137,023  | \$ 402,450         |                       | \$ 18,547      |
| 30                      |          | Less: Non- depreciable Account(s) (L3)   | -             | -                  |                       | -              |
| 31                      |          | Depreciable Plant (L29-L30)  | \$ 1,137,023  | \$ 402,450         |                       |                |
| 32                      |          | Contributions-in-Aid-of-Construction (CIAC) Per Decision No. 54526 (1/28/1985) - Not Amortized | \$ 76,247     |                    |                       |                |
| 33                      |          | Composite Depreciation/Amortization Rate   | 0.00%         |                    |                       |                |
| 34                      |          | Less: Amortization of CIAC (L32 x L33)   |               |                    |                       | \$ -           |
| 35                      |          | Depreciation Expense - STAFF [Col. (C), L29 - L34]   |               |                    |                       | \$ 18,547      |

| LINE NO. | DESCRIPTION          | [A]<br>COMPANY PROPOSED | [B]<br>STAFF ADJUSTMENT | [C]<br>STAFF RECOMMENDED |
|----------|----------------------|-------------------------|-------------------------|--------------------------|
| 36       | Depreciation Expense | \$ 37,195               | \$ (18,648)             | \$ 18,547                |

References:

Col [A]: MJR-4  
Col [B]: Decision No. 70170 and updated Plant Schedules  
Col [C]: MJR Testimony

OPERATING INCOME ADJUSTMENT #5 - PROPERTY TAXES

| LINE<br>NO. | Property Tax Calculation  | (C)                  |                      |
|-------------|---|----------------------|----------------------|
|             |   | STAFF<br>AS ADJUSTED | STAFF<br>RECOMMENDED |
| 1           | Staff Adjusted Test Year Revenues - 2011                                  | \$ 420,536           | \$ 420,536           |
| 2           | Weight Factor   | 2                    | 2                    |
| 3           | Subtotal (Line 1 * Line 2)  | 841,073              | \$ 841,073           |
| 4           | Staff Recommended Revenue, Per Schedule MJR-1                             | 420,536              | \$ 428,738           |
| 5           | Subtotal (Line 4 + Line 5)  | 1,261,609            | 1,269,811            |
| 6           | Number of Years   | 3                    | 3                    |
| 7           | Three Year Average (Line 5 / Line 6)                                      | 420,536              | 423,270              |
| 8           | Department of Revenue Multiplier  | 2                    | 2                    |
| 9           | Revenue Base Value (Line 7 * Line 8)                                      | 841,073              | 846,541              |
| 10          | Plus: 10% of CWIP -   | -                    | -                    |
| 11          | Less: Net Book Value of Licensed Vehicles                                 | 2,171                | 2,171                |
| 12          | Full Cash Value (Line 9 + Line 10 - Line 11)                              | 838,902              | \$ 844,370           |
| 13          | Assessment Ratio  | 20.0%                | 20.0%                |
| 14          | Assessment Value (Line 12 * Line 13)                                      | 167,780              | \$ 168,874           |
| 15          | Composite Property Tax Rate   | 13.9638%             | 13.9638%             |
| 16          | Staff Test Year Adjusted Property Tax (Line 14 * Line 15)                 | \$ 23,429            | \$ -                 |
| 17          | Company Proposed Property Tax   | 18,187               |                      |
| 18          | Staff Test Year Adjustment (Line 16-Line 17)                              | \$ 5,242             |                      |
| 19          | Property Tax - Staff Recommended Revenue (Line 14 * Line 15)              |                      | \$ 23,581            |
| 20          | Staff Test Year Adjusted Property Tax Expense (Line 16)                   |                      | \$ 23,429            |
| 21          | Increase in Property Tax Expense Due to Increase in Revenue Requirement   |                      | \$ 153               |
| 22          | Increase to Property Tax Expense  |                      | \$ 153               |
| 23          | Increase in Revenue Requirement   |                      | 8,202                |
| 24          | Increase to Property Tax per Dollar Increase in Revenue (Line 22/Line 23) |                      | 1.861840%            |

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MJR-18

OPERATING INCOME ADJUSTMENT #6 - TEST YEAR INCOME TAXES

| LINE |                    | [A]<br>COMPANY | [B]<br>STAFF | [C]<br>STAFF |
|------|--------------------|----------------|--------------|--------------|
| NO.  | DESCRIPTION        | PROPOSED       | ADJUSTMENTS  | RECOMMENDED  |
| 1    | Income Tax Expense | \$ 45          | \$ 1,317     | \$ 1,362     |

References:

Col [A]: Company Schedule E-2 Revised 9/24/2012

Col [B]: Col [C] - Col [A]

Col [C]: Schedule MJR-2, Line 43

CORDES LAKES WATER COMPANY  
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Test Year Ended December 31, 2011

MJR-19

**OPERATING INCOME ADJUSTMENT #7 WATER TESTING**

| LINE<br>NO. | DESCRIPTION           | [A]<br>COMPANY | [B]<br>STAFF | [C]<br>STAFF |
|-------------|-----------------------|----------------|--------------|--------------|
|             |                       | PROPOSED       | ADJUSTMENTS  | RECOMMENDED  |
| 1           | Water Testing Expense | \$ 1,806       | \$ 4,052     | \$ 5,858     |

References:

Col [A]: Company Schedule E-2

Col [B]: Col [C] - Col [A]

Col [C]: Engineering Report

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Test Year Ended December 31, 2011

MJR-20

**OPERATING INCOME ADJUSTMENT #8 - NON-METERED REVENUE FEES**

| LINE |                          | [A]                              | [B]                  | [C]                  |
|------|--------------------------|----------------------------------|----------------------|----------------------|
|      |                          | COMPANY<br>PROPOSED<br>9/24/2012 | STAFF<br>ADJUSTMENTS | STAFF<br>RECOMMENDED |
| NO.  | DESCRIPTION              |                                  |                      |                      |
| 1    | Misc Income Net          | \$ 640                           | \$ (640)             | \$ -                 |
| 2    | Establishment            | -                                | \$ 6,825             | 6,825                |
| 3    | Reconnection             | -                                | \$ 1,045             | 1,045                |
| 4    | After Hours Reconnection | -                                | \$ 150               | 150                  |
| 5    | Re-Establishment         | -                                | \$ 70                | 70                   |
| 6    |                          | \$ 640                           | \$ 7,450             | \$ 8,090             |

|                          |                                 |
|--------------------------|---------------------------------|
|                          | COMPANY<br>Revised<br>8/17/2012 |
| Misc Income Net          | \$ -                            |
| Establishment            | 6,825                           |
| Reconnection             | 1,045                           |
| After Hours Reconnection | 150                             |
| Re-Establishment         | 70                              |

References:

Col [A]: Company Schedule A-2 (B)  
Col [B]: Col [C] - Col [A]  
Col [C]: Schedule Column A plus Column B

CORDES LAKES WATER COMPANY  
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Test Year Ended December 31, 2011

MJR-21

**OPERATING INCOME ADJUSTMENT #9 - INTEREST ON CUSTOMER DEPOSITS**

| LINE       |                               | [A]             | [B]                | [C]                |
|------------|-------------------------------|-----------------|--------------------|--------------------|
|            |                               | COMPANY         | STAFF              | STAFF              |
| <u>NO.</u> | <u>DESCRIPTION</u>            | <u>PROPOSED</u> | <u>ADJUSTMENTS</u> | <u>RECOMMENDED</u> |
| 1          | Interest on Customer Deposits | \$ -            | \$ 1,050           | \$ 1,050           |

References:

Col [A]: Company Schedule A-2 (B)  
Col [B]: Col [C] - Col [A]  
Col [C]: MJR Testimony

**RATE DESIGN**

| Monthly Usage Charge         |                             | Present<br>Rates | -Proposed Rates- |        |
|------------------------------|-----------------------------|------------------|------------------|--------|
| 5/8" x 3/4" Meter            |                             | N/A              | N/A              | N/A    |
| 3/4" Meter                   |                             | 11.00            | 13.50            | 11.00  |
| 1" Meter                     |                             | 19.50            | 24.50            | 19.50  |
| 1½" Meter                    |                             | 39.00            | 48.75            | 39.00  |
| 2" Meter                     |                             | 62.50            | 78.00            | 62.50  |
| 3" Meter                     |                             | 125.00           | 156.00           | 125.00 |
| 4" Meter                     |                             | 220.00           | 275.00           | 220.00 |
| 6" Meter                     |                             | 390.00           | 485.00           | 390.00 |
| 8" Meter                     |                             | N/A              | N/A              | N/A    |
| 10" Meter                    |                             | N/A              | N/A              | N/A    |
| 12" Meter                    |                             | N/A              | N/A              | N/A    |
| Gallons Included in Minimum  |                             | 0                | 0                | 0      |
| <u>Commodity Rate Charge</u> |                             |                  |                  |        |
| <u>3/4" Meter</u>            |                             |                  |                  |        |
| <i>Company</i>               |                             |                  |                  |        |
| Tier 1                       | From 0 to 3,000 gallons     | 2.80             | 3.30             |        |
| Tier 2                       | From 3,001 to 8,000 gallons | 4.30             | 5.25             |        |
| Tier 3                       | Over 8,000 gallons          | 5.00             | 6.00             |        |
| <i>Staff</i>                 |                             |                  |                  |        |
| Tier 1                       | From 0 to 3,000 gallons     |                  |                  | 2.80   |
| Tier 2                       | From 3,001 to 8,000 gallons |                  |                  | 4.50   |
| Tier 3                       | Over 8,000 gallons          |                  |                  | 5.40   |
| <u>1" Meter</u>              |                             |                  |                  |        |
| <i>Company</i>               |                             |                  |                  |        |
| Tier 1                       | From 0 to 18,000 gallons    | 4.30             | 5.25             |        |
| Tier 2                       | Over 18,000 gallons         | 5.00             | 6.00             |        |
| <i>Staff</i>                 |                             |                  |                  |        |
| Tier 1                       | From 0 to 18,000 gallons    |                  |                  | 4.50   |
| Tier 2                       | Over 18,000 gallons         |                  |                  | 5.40   |
| <u>1½" Meter</u>             |                             |                  |                  |        |
| <i>Company</i>               |                             |                  |                  |        |
| Tier 1                       | From 0 to 43,500 gallons    | 4.30             | 5.25             |        |
| Tier 2                       | Over 43,500 gallons         | 5.00             | 6.00             |        |
| <i>Staff</i>                 |                             |                  |                  |        |
| Tier 1                       | From 0 to 43,500 gallons    |                  |                  | 4.50   |
| Tier 2                       | Over 43,500 gallons         |                  |                  | 5.40   |
| <u>2" Meter</u>              |                             |                  |                  |        |
| <i>Company</i>               |                             |                  |                  |        |
| Tier 1                       | From 0 to 75,000 gallons    | 4.30             | 5.25             |        |
| Tier 2                       | Over 75,000 gallons         | 5.00             | 6.00             |        |
| <i>Staff</i>                 |                             |                  |                  |        |
| Tier 1                       | From 0 to 75,000 gallons    |                  |                  | 4.50   |
| Tier 2                       | Over 75,000 gallons         |                  |                  | 5.40   |
| <u>3" Meter</u>              |                             |                  |                  |        |
| <i>Company</i>               |                             |                  |                  |        |
| Tier 1                       | From 0 to 160,000 gallons   | 4.30             | 5.25             |        |
| Tier 2                       | Over 160,000 gallons        | 5.00             | 6.00             |        |
| <i>Staff</i>                 |                             |                  |                  |        |
| Tier 1                       | From 0 to 160,000 gallons   |                  |                  | 4.50   |
| Tier 2                       | Over 160,000 gallons        |                  |                  | 5.40   |
| <u>4" Meter</u>              |                             |                  |                  |        |
| <i>Company</i>               |                             |                  |                  |        |
| Tier 1                       | From 0 to 290,000 gallons   | 4.30             | 5.25             |        |
| Tier 2                       | Over 290,000 gallons        | 5.00             | 6.00             |        |
| <i>Staff</i>                 |                             |                  |                  |        |
| Tier 1                       | From 0 to 290,000 gallons   |                  |                  | 4.50   |
| Tier 2                       | Over 290,000 gallons        |                  |                  | 5.40   |
| <u>6" Meter</u>              |                             |                  |                  |        |
| <i>Company</i>               |                             |                  |                  |        |
| Tier 1                       | From 0 to 530,000 gallons   | 4.30             | 5.25             |        |
| Tier 2                       | Over 530,000 gallons        | 5.00             | 6.00             |        |
| <i>Staff</i>                 |                             |                  |                  |        |
| Tier 1                       | From 0 to 530,000 gallons   |                  |                  | 4.50   |
| Tier 2                       | Over 530,000 gallons        |                  |                  | 5.40   |

**RATE DESIGN**

Service Line and Meter Installation Charges

|                   |          |               | Service Meter |              |          |
|-------------------|----------|---------------|---------------|--------------|----------|
|                   |          |               | Line          | Installation | Total    |
| 5/8" x 3/4" Meter | N/T      | N/T           | N/T           | N/T          | N/T      |
| 3/4" Meter        | 520.00   | Same as Staff | 426.00        | 198.00       | 624.00   |
| 1" Meter          | 610.00   | Same as Staff | 486.00        | 246.00       | 732.00   |
| 1 1/2" Meter      | 855.00   | Same as Staff | 528.00        | 498.00       | 1,026.00 |
| 2" Meter          | 1,515.00 | Same as Staff | 720.00        | 1,098.00     | 1,818.00 |
| 3" Meter          | 2,195.00 | Same as Staff | 930.00        | 1,764.00     | 2,694.00 |
| 4" Meter          | 3,360.00 | Same as Staff | 1,332.00      | 2,700.00     | 4,032.00 |
| 6" Meter          | 6,115.00 | Same as Staff | 2,000.00      | 5,350.00     | 7,350.00 |

Service Charges

|   |         |         |         |
|---|---------|---------|---------|
| Establishment                                 | \$25.00 | \$30.00 | \$30.00 |
| Establishment (After Hours)                   | \$35.00 | \$40.00 | NT      |
| Reconnection (Delinquent)                     | \$15.00 | \$20.00 | \$20.00 |
| Reconnection (Delinquent) After Hours         | \$25.00 | \$30.00 | NT      |
| NSF Check                                     | \$12.50 | \$15.00 | \$15.00 |
| Meter Re-Read (If Correct)                    | \$10.00 | \$12.00 | \$12.00 |
| Meter Test (If Correct)                       | \$25.00 | \$30.00 | \$30.00 |
| Deferred Payment (per Month)                  | 1.5%    | 1.5%    | ***     |
| Deposit Amount                                | *       | *       | *       |
| Deposit Interest                              | *       | *       | *       |
| Re-Establishment (Within 12 Months)           | **      | **      | **      |
| Late Fee (per Month)                          | 1.5%    | 1.5%    | ***     |
| Road Cutting or Boring                        | Cost    | Cost    | Cost    |
| After Hours Service Charge (Customer Request) | N/T     | N/T     | \$35.00 |

NT = No Tariff

Monthly Service Charge for Fire Sprinkler

|                 |        |        |      |
|-----------------|--------|--------|------|
| 4" or Smaller   | \$0.00 | \$0.00 | **** |
| 6"              | 0.00   | 0.00   | **** |
| 8"              | 0.00   | 0.00   | **** |
| 10"             | 0.00   | 0.00   | **** |
| Larger than 10" | 0.00   | 0.00   | **** |

\* Per Commission Rules (R14-2-403.B)

\*\* Months off system times the minimum (R14-2-403.D)

\*\*\* 1.5% on the unpaid balance per month

\*\*\*\* 2.00% of Monthly Minimum for a Comparable Sized Meter Connection, but no less than \$10.00 per month. The Service Charge for Fire Sprinklers is only applicable for service lines separate and distinct from the primary water service line.



**TYPICAL BILL ANALYSIS**  
General Service 3/4 - Inch Meter

Average Number of Customers: 1,291

| <u>Company Proposed</u> | <u>Gallons</u> | <u>Present Rates</u> | <u>Proposed Rates</u> | <u>Dollar Increase</u> | <u>Percent Increase</u> |
|-------------------------|----------------|----------------------|-----------------------|------------------------|-------------------------|
| Average Usage           | 4,169          | \$24.42              | \$29.54               | \$5.11                 | 20.92%                  |
| Median Usage            | 3,088          | \$19.78              | \$23.86               | \$4.08                 | 20.65%                  |

| <u>Staff Recommend</u> | <u>Gallons</u> | <u>Present Rates</u> | <u>Proposed Rates</u> | <u>Dollar Increase</u> | <u>Percent Increase</u> |
|------------------------|----------------|----------------------|-----------------------|------------------------|-------------------------|
| Average Usage          | 4,169          | \$24.42              | \$24.66               | \$0.23                 | 0.96%                   |
| Median Usage           | 3,088          | \$19.78              | \$19.80               | \$0.02                 | 0.09%                   |

Present & Proposed Rates (Without Taxes)  
General Service 3/4 - Inch Meter

| <u>Gallons Consumption</u> | <u>Present Rates</u> | <u>Company Proposed Rates</u> | <u>% Increase</u> | <u>Staff Proposed Rates</u> | <u>% Increase</u> |
|----------------------------|----------------------|-------------------------------|-------------------|-----------------------------|-------------------|
| 0                          | \$11.00              | \$13.50                       | 22.73%            | \$11.00                     | 0.00%             |
| 1,000                      | 13.80                | 16.80                         | 21.74%            | 13.80                       | 0.00%             |
| 2,000                      | 16.60                | 20.10                         | 21.08%            | 16.60                       | 0.00%             |
| 3,000                      | 19.40                | 23.40                         | 20.62%            | 19.40                       | 0.00%             |
| 4,000                      | 23.70                | 28.65                         | 20.89%            | 23.90                       | 0.84%             |
| 5,000                      | 28.00                | 33.90                         | 21.07%            | 28.40                       | 1.43%             |
| 6,000                      | 32.30                | 39.15                         | 21.21%            | 32.90                       | 1.86%             |
| 7,000                      | 36.60                | 44.40                         | 21.31%            | 37.40                       | 2.19%             |
| 8,000                      | 40.90                | 49.65                         | 21.39%            | 41.90                       | 2.44%             |
| 9,000                      | 45.90                | 55.65                         | 21.24%            | 47.30                       | 3.05%             |
| 10,000                     | 50.90                | 61.65                         | 21.12%            | 52.70                       | 3.54%             |
| 15,000                     | 75.90                | 91.65                         | 20.75%            | 79.70                       | 5.01%             |
| 20,000                     | 100.90               | 121.65                        | 20.56%            | 106.70                      | 5.75%             |
| 25,000                     | 125.90               | 151.65                        | 20.45%            | 133.70                      | 6.20%             |
| 50,000                     | 250.90               | 301.65                        | 20.23%            | 268.70                      | 7.09%             |
| 75,000                     | 375.90               | 451.65                        | 20.15%            | 403.70                      | 7.40%             |
| 100,000                    | 500.90               | 601.65                        | 20.11%            | 538.70                      | 7.55%             |
| 125,000                    | 625.90               | 751.65                        | 20.09%            | 673.70                      | 7.64%             |
| 150,000                    | 750.90               | 901.65                        | 20.08%            | 808.70                      | 7.70%             |
| 175,000                    | 875.90               | 1,051.65                      | 20.07%            | 943.70                      | 7.74%             |
| 200,000                    | 1,000.90             | 1,201.65                      | 20.06%            | 1,078.70                    | 7.77%             |

BEFORE THE ARIZONA CORPORATION COMMISSION



BOB STUMP  
Chairman  
GARY PIERCE  
Commissioner  
BRENDA BURNS  
Commissioner  
BOB BURNS  
Commissioner  
SUSAN BITTER SMITH  
Commissioner

IN THE MATTER OF THE APPLICATION OF )  
CORDES LAKES WATER COMPANY FOR )  
AN INCREASE IN ITS RATES )  
\_\_\_\_\_ )

DOCKET NO. W-02060A-12-0356

SURREBUTTAL

TESTIMONY

OF

MARY J. RIMBACK

PUBLIC UTILITIES ANALYST

UTILITIES DIVISION

ARIZONA CORPORATION COMMISSION

MAY 17, 2013

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**EXECUTIVE SUMMARY  
CORDES LAKES WATER COMPANY  
DOCKET NO. W-02060A-12-0356**

The Surrebuttal Testimony of Staff witness Mary J. Rimback addresses the issues of rate base, operating income, revenue requirement, and rate design for Cordes Lakes Water Company ("Cordes Lakes" or "Company").

The Company's Rebuttal Testimony requests an increase in revenue of \$50,372 (11.95 percent) increase over test year revenue of \$420,536. The total annual revenue of \$470,807 produces operating income of \$23,508 for a 10.55 percent rate of return on fair value rate base ("FVRB") which is also its original cost rate basis ("OCRB") of \$222,825. The Company's Rebuttal Testimony withdraws the request for surcharges made in its original rate application.

The Utilities Division ("Staff") recommends total operating revenue of \$441,810, a \$21,274 (5.06 percent) increase over the \$420,536 Staff-adjusted test year revenue, to provide a \$13,069 operating income and a 9.0 percent rate of return on the \$145,210 Staff-adjusted FVRB and OCRB. Staff's Surrebuttal revenue requirement represents a \$13,072 increase from its Direct Testimony. Staff recommended rates would increase the typical 5/8 x 3/4-inch meter residential water bill with median usage of \$3,088 by \$0.49 (2.48 percent) from \$19.78 to \$20.27.

**I. INTRODUCTION**

**Q. Please state your name, occupation, and business address.**

A. My name is Mary J. Rimback; I am a Public Utilities Analyst Arizona Corporation Commission ("ACC" or "Commission") in the Utilities Division ("Staff"). My business address is 1200 West Washington Street, Phoenix, Arizona 85007.

**Q. Are you the same Mary J. Rimback who previously submitted Direct Testimony in this case?**

A. Yes, I am.

**Q. How is your testimony organized?**

A. My testimony is presented in four sections. Section I is this introduction. Section II provides the purpose of the testimony. Section III is a summary of recommendations. Section IV presents Staff's response to the Rebuttal Testimony of Mr. Matthew Rowell.

**II. PURPOSE OF SURREBUTTAL TESTIMONY**

**Q. What is the purpose of your Surrebuttal Testimony in this proceeding?**

A. The purpose of my Surrebuttal Testimony in this proceeding is to respond to the Rebuttal Testimony of Cordes Lakes Water Company ("Cordes Lakes" or "Company") witness Mr. Matthew Rowell and to present Staff's Surrebuttal position regarding rate base, operating income, revenue requirement and rate design issues.

1 **Q. Do you attempt to address every issue raised by the Company in its Rebuttal**  
2 **Testimony?**

3 A. No, my silence on any particular issue raised in the Company's Rebuttal Testimony does  
4 not indicate that Staff agrees with the Company's rebuttal position on that issue. I rely on  
5 my Direct Testimony unless modified by this Surrebuttal Testimony.  
6

7 **Q. What issues will you address?**

8 A. My Surrebuttal Testimony addresses the following issues presented in Rebuttal Testimony  
9 of Mr. Rowell:  
10

- 11 1) ~~Contributions in Aid of Construction ("CIAC")~~ balance and CIAC amortization  
12 2) Real property included in rate base  
13 3) Bad debt expense  
14 4) Staff's plant disallowance  
15 5) Rate Case Expense  
16 6) Post Test Year Plant  
17 7) Accounting Expenses  
18 8) Purchased Power Expenses  
19 9) Revenue Requirement and Rate Design  
20

21 **III. SUMMARY OF RECOMMENDATIONS**

22 **Q. What Rebuttal revenue requirement is the Company proposing?**

23 A. The Company's Rebuttal Testimony is requesting total operating revenue of \$470,807, a  
24 \$50,271 or an 11.95 percent increase over test year revenue of \$420,536, to provide a  
25 \$23,508 operating income and a 10.55 percent rate of return on a proposed \$222,825 fair

1 value rate base ("FVRB") which is also the Company-proposed original cost rate base  
2 ("OCRB").  
3

4 **Q. Please provide a summary of Staff's Surrebuttal recommendations.**

5 A. The Staff's Surrebuttal revenue requirement of \$441,810 represents an increase of \$21,274  
6 or 5.06 percent over test year revenue of \$420,536 to provide a \$13,069 operating income  
7 and a 9.00 percent rate of return on a proposed \$145,210 fair value rate base ("FVRB").  
8 Staff's Surrebuttal revenue requirement represents a \$13,072 increase from its Direct  
9 Testimony. Staff's recommended rates would increase the typical 5/8 x 3/4-inch meter  
10 residential water bill with median usage of 3,088 gallons by \$0.49 (2.48 percent), from  
11 \$19.78 to \$20.27.  
12

13 **IV. RESPONSE TO REBUTTAL TESTIMONY OF MATTHEW ROWELL**

14 *CIAC Balance and Accumulated Amortization of CIAC*

15 **Q. What is the Company proposing for CIAC and Accumulated Amortization of CIAC**  
16 **in its Rebuttal?**

17 A. The Company's Rebuttal proposes \$92,754 for CIAC and \$53,720 for Accumulated  
18 Amortization of CIAC resulting in a \$39,034 Net CIAC balance. The Company presents  
19 Schedule 1 that list CIAC and CIAC amortizations for the period beginning in 1999 and  
20 continuing through to December 31, 2012. The Company provided no support for the  
21 amounts presented in Schedule 1. The Company also asserts that Staff misinterpreted  
22 Decision No. 54526 and that the CIAC that Decision directed not to be amortized refers to  
23 additional advances to be converted to CIAC that are not included in Staff \$76,247 CIAC  
24 balance. Further the Company claims that these additional CIAC amounts pertain to the  
25 Verde Village System that the City of Cottonwood condemned and that the CIAC

1 associated with the Verde Village System would have been conveyed with the  
2 condemnation.

3  
4 **Q. What is Staff's response to the Company's assertions regarding CIAC and**  
5 **Accumulated Amortization of CIAC?**

6 A. First, it appears that Staff and the Company agree that the CIAC related to the Verde  
7 Village System should not be included in rate base. Second, whether the CIAC balance  
8 should reflect amortization is determined by the Commission Orders. Staff has further  
9 reviewed Decision Nos. 54526 and 70170<sup>1</sup> for the Company's prior two rate cases and  
10 concluded that Decision No. 54526 did not authorize amortization of CIAC; however,  
11 Decision No. 70170 did authorize amortization of CIAC. The latter authorization is  
12 inferred by the adoption of Staff's recommendations which included Staff's depreciation  
13 expenses. Staff Surrebuttal Schedule GTM-18 in that case shows that Staff deducted an  
14 amount for the amortization of CIAC in its calculation of depreciation expense. Thus,  
15 amortization of the \$76,247 CIAC balance should have begun on the effective date of  
16 rates in the prior rate case, but not before that date. Staff's Surrebuttal reflects the  
17 accumulation of amortization from March 2008 through the end of the test year.

18  
19 **Q. How did Staff calculate depreciation expense in Surrebuttal Schedule GTM-18 in the**  
20 **prior rate case?**

21 A. Schedule GTM-18 shows that Staff recommended \$25,137 for depreciation expense. The  
22 recommended depreciation expense represents a gross (prior to CIAC amortization)  
23 depreciation of \$30,063 reduced by \$4,926 for the amortization of CIAC. The  
24 amortization of CIAC is calculated using a composite rate of depreciation expense. The

---

<sup>1</sup> Docket No. W-02060A-07-0256 (February 28, 2008).



1 composite rate is the depreciation expense for the test year divided by the amount of  
2 depreciable plant in the test year.

3  
4 **Q. What adjustment does Staff recommend for CIAC and Accumulated Amortization**  
5 **of CIAC?**

6 A. Staff recommends the CIAC balance adopted in Decision No. 70170 of \$76,247 and an  
7 accumulated amortization of CIAC balance adjusted upward from \$0 in Direct Testimony  
8 to \$18,710. The accumulated amortization balance is based on the composite rate of  
9 depreciation expense for each annual period from March 1, 2008, through the end of the  
10 test year December 31, 2011, as shown in Surrebuttal Schedule MJR-9. Amortization of  
11 CIAC in the test year of \$3,514 is deducted from depreciation expense as shown in  
12 Surrebuttal Schedule MJR-16.

13  
14 *Real Property included in Rate Base*

15 **Q. Did the Company's Rebuttal Testimony propose to revise from its original**  
16 **application the amount of real property it is proposing to include in rate base?**

17 A. Yes. The Company's original filing proposed including \$35,665 for *Land and Land*  
18 *Rights*. Staff removed this amount entirely because the investment pertains to a parcel of  
19 land that is not used and useful, and the Company's Rebuttal position agrees with Staff's  
20 determination for that parcel. However, in Rebuttal the Company claims that its books  
21 carry a balance of \$85,599 for land, and therefore is requesting to include the \$49,934  
22 (\$85,599 - \$35,665) balance in rate base.

23

1 **Q. What support did the Company provide for its revised land request?**

2 A. The Company's only support is Schedule 3 attached to the Rebuttal Testimony of  
3 Company witness Mr. Matthew Rowell and a statement that this is a reasonable amount  
4 considering that its wells and booster pumps are positioned on land.  
5

6 **Q. Does Staff consider the Company's support for its land request adequate?**

7 A. No. The Company should provide support showing the owner's name, date(s), transaction  
8 values, locations and dimensions of the claimed land along with an explanation of the  
9 plant located on each parcel. Also if this land is for utility use, the Company should  
10 explain why its Schedule 3 shows five sales transactions reducing the land account  
11 balance.  
12

13 **Q. What does Staff recommend?**

14 A. Staff continues to recommend disallowance of all amounts the Company requests for  
15 including land in rate base  
16

17 *Bad Debt Expense*

18 **Q. Did the Company's Rebuttal Testimony introduce a new request for bad debt**  
19 **expense?**

20 A. Yes, the Company in its Rebuttal Testimony is requesting \$4,049 for bad debt expense -  
21 all of which it recorded in October of 2011.  
22

23 **Q. What are Staff's comments regarding bad debt expense?**

24 A. Bad debt expense typically varies significantly from year to year for various reasons  
25 including the variances in the consistency used by the Company to write-off receivables.  
26 Thus, it is appropriate to review a multi-year history of bad debts to determine whether a

1 normalized amount is more representative of the likely on-going amount versus the actual  
2 test year amount. In response to Staff data request MJR 2-1, the Company provided  
3 support to the following write-offs by year: 2007, \$43; 2008, \$1,488; 2009, \$4,079 and  
4 2010, \$2,048 which Staff calculated as approximately 0.46 percent of revenue.  
5 Accordingly, Staff concludes that normalizing bad debt expense at 0.46 percent of  
6 revenues is appropriate.

7  
8 **Q. What does Staff recommend for bad debts expense?**

9 A. Staff recommends \$1,934 for test year bad debt expense, as shown in Surrebuttal Schedule  
10 MJR-24 and recognition of a 0.46 percent bad debt rate in the gross revenue conversion  
11 factor, as shown in Surrebuttal Schedule MJR-2.

12  
13 *Plant Disallowance*

14 **Q. Did Staff request the Company to provide support for all plant additions since the**  
15 **end of the test year (December 31, 2006) in the prior rate case?**

16 A. Yes, Staff requested invoices to support all amounts added to plant since test year 2006.

17  
18 **Q. Did the Company provide invoices to verify all of its plant additions from 2006**  
19 **through the test year?**

20 A. Not completely, the Company provided invoices for \$97,600 of the \$100,635 plant  
21 additions in its application, a shortfall of \$3,035.

22  
23 **Q. Did Staff's recommended \$11,818 disallowance its Direct Testimony include this**  
24 **\$3,035 shortfall?**

25 A. Yes.  
26

1 **Q. Does Exhibit 4 in the Company s Rebuttal Testimony represent the invoice for the**  
2 **\$3,035 shortfall as it claims?**

3 A. No. Exhibit 4 attached to the Company's Rebuttal Testimony is a copy of an invoice  
4 amounting to \$20,299. Handwritten on the invoice are the amounts: CLWC \$6,766 and  
5 BWC \$13,533 indicating that \$6,766 pertains to Cordes Lakes and \$13,533 pertains to  
6 Berneil Water Company (Cordes Lakes and Berneil Water Company ("BWC") have  
7 common ownership). Neither of these amounts account for the \$3,035 of missing invoices  
8 for the claimed plant. The \$6,766.67 charge to Cordes Lakes is not the missing \$3,035,  
9 and while Schedule 2 of the Company's Rebuttal Testimony labels the amount of \$13,533  
10 for Invoice No. S1016897 as a missing amount, as noted above, the handwriting on the  
11 invoice (Rebuttal Exhibit 4) indicates that the \$13,533 amount is for BWC, not Cordes  
12 Lakes.

13  
14 **Q. Does the Company have a written capitalization policy?**

15 A. No. Staff asked the Company whether it had a written capitalization policy, and it replied  
16 that it did not have a written capitalization policy. In response to Staff Data Request  
17 MJR1-10, the Company gave the following explanation of its expense versus capitalized  
18 method:

19  
20 Almost all purchases are expensed or are considered section 179 property  
21 for tax purposes. The decision is based upon how long the items are  
22 expected to last. There is no written policy. During the test year a  
23 replacement pump was expensed for \$5,200.

24  
25 **Q. How did Staff interpret the Company statement regarding capitalization versus**  
26 **expensing costs?**

27 A. The Company's response indicates to Staff that its dollar capitalization threshold is greater  
28 than \$5,200. However, absence of a written policy increases the potential for inconsistent

1 application of the Company's capitalization policy. The statement also implies that the  
2 Company utilizes tax accounting versus the Commission authorized National Association  
3 of Regulatory Utility Commissioners ("NARUC") Uniform System of Accounts  
4 ("USoA").  
5

6 **Q. Is the Company's proposed capitalization as shown in Exhibit 5 of its Rebuttal**  
7 **Testimony consistent with the explanation it provided Staff of its capitalization**  
8 **policy?**

9 A. No. The Company's explanation of its capitalization policy indicates that it expenses  
10 instead of capitalizing amounts of \$5,200 or less. Exhibit 5 shows the Company  
11 capitalizing the much lower amount of \$865. The Company apparently does not  
12 consistently apply a capitalization policy, and its proposed capitalization of the costs as  
13 shown on Schedule 2 of its Rebuttal Testimony is not supported by its policy.  
14

15 **Q. What does Staff recommend regarding plant additions since the prior rate case?**

16 A. Staff continues to recommend the \$11,818 disallowance of plant that it recommended in  
17 Direct Testimony. Staff also recommends that the Company adopt a written capitalization  
18 policy.  
19

20 *Rate Case Expense*

21 **Q. Did the Company newly propose an amount for rate case expense in its Rebuttal**  
22 **Testimony?**

23 A. Yes, the Company proposed to amortize \$18,000 of rate case expense over three years,  
24 i.e., \$6,000 per year.  
25

1 **Q. What does Staff recommend?**

2 A. Staff recommends approval of the Company's request to include \$6,000 for annual rate  
3 case expense as an amortization of \$18,000 over three years, as shown in Surrebuttal  
4 Schedule MJR-22. Staff also recommends that the Order specify that no rate case expense  
5 from this case is to be included in rates in any future rate case.  
6

7 *Post Test Year Plant*

8 **Q. Did the Company's Rebuttal Testimony increase plant, accumulated depreciation**  
9 **and depreciation expense by amounts attributed to post-test year plant?**

10 A. Yes, the Company proposes to include in rate base post-test year plant in the amount of  
11 \$16,324 (\$7,680 for 2013 and \$8,643 for 2012) and to increase accumulated depreciation  
12 by \$2,641 and to increase depreciation expense by \$1,560.  
13

14 **Q. Did the Company provide support for any of its requested post-test year plant?**

15 A. No. The Company needs to provide documentation of its proposed post-test year plant  
16 improvements for them to be considered in rates.  
17

18 **Q. What is Staff's recommendation?**

19 A. Staff recommends not including the Company's proposed post-test year amounts in the  
20 rate base or expenses without adequate documentation.  
21

22 *Accounting Expenses*

23 **Q. Does the Company request in its Rebuttal Testimony an increase operating expense**  
24 **for outside accounting services?**

25 A. Yes, the Company requests to increase by \$6,340, from \$3,660 to \$10,000 its outside  
26 accounting services expense.

1     **Q.     What is Staff's recommendation as to the outside accounting services?**

2     A.     Staff recommends approval of the revised accounting services expense to \$10,000 subject  
3           to the Company submitting documentation of entering a contract for accounting services  
4           prior to the date of the hearing in this rate proceeding, as shown in Surrebuttal Schedule  
5           MJR-23.

6  
7     *Purchased Power Expenses*

8     **Q.     Did the Company's Rebuttal Testimony request a pro forma adjustment to increase**  
9           **purchased power expense?**

10    A.     Yes, the Company requests a pro forma \$917 increase in purchased power expense due to  
11           changes in the charges the Commission authorized in its power provider (APS) in  
12           Decision No. 73183.

13  
14    **Q.     Did the Company provide any support for the amount of its pro form request in its**  
15           **Rebuttal Testimony?**

16    A.     No. While Staff supports the concept of recognizing a pro forma adjustment for the  
17           change in the rates charged by the Company's power provider, the Company has not  
18           provided calculations to support its \$917 quantification of the impact on its purchased  
19           power costs. Absent this support, Staff does not recommend adoption of this pro forma  
20           request.

21  
22    *Revenue Requirement and Rate Design*

23    **Q.     Did Staff update its rate design to reflect its Surrebuttal revenue requirement?**

24    A.     Yes.  
25

1 **Q. Does Staff have any comments regarding the Company's Rebuttal Testimony**  
2 **pertaining to the issue of rate design?**

3 A. Yes. The Company's primary concern with Staff's rate design is that it does not provide  
4 the level of revenue stability the Company desires. To support its position the Company  
5 notes that Staff assigned all of the revenue increase to the second and third commodity  
6 rate tiers and the recommended rate design generates 41 percent of the revenue from the  
7 monthly minimum charges and 59 percent from the commodity charges.

8  
9 Staff's assignment of the entire revenue increase to the commodity rates was a function of  
10 the relatively small revenue increase. Since Staff typically targets generating 30 percent  
11 to 40 percent of the revenue from the minimum monthly charge, the 41 percent result is  
12 consistent with providing adequate revenue stability. Since Staff's Surrebuttal rate design  
13 generates more revenue than its direct rate design, Staff is now recommending increases to  
14 the monthly minimum charges for some meter sizes. In addition, Staff's Surrebuttal rate  
15 design reduces the break-over points to provide additional revenue stability. Staff's  
16 Surrebuttal rate design generates 41.6 percent of the revenue from the minimum monthly  
17 charges and 58.4 percent from the commodity rates. Staff's recommended rates are shown  
18 in Schedule MJR-24 and the typical bill analysis for 3/4-inch meter customers is shown in  
19 Schedule MJR-25.

20  
21 **Q. Does this conclude your testimony?**

22 A. Yes, it does.



SURREBUTTAL TESTIMONY OF Mary J. Rimback

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REVENUE REQUIREMENT

| LINE<br>NO. | DESCRIPTION  | (A)<br>COMPANY<br>ORIGINAL<br>COST | (B)<br>STAFF<br>ORIGINAL<br>COST |
|-------------|--|------------------------------------|----------------------------------|
| 1           | Adjusted Rate Base                                 | \$ 496,789                         | \$ 145,210                       |
| 2           | Adjusted Operating Income (Loss) <sup>1</sup>      | \$ (17,373)                        | \$ (3,363)                       |
| 3           | Current Rate of Return (L2 / L1) <sup>2</sup>      | 0.00%                              | -2.32%                           |
| 4           | Required Rate of Return                            | 8.00%                              | 9.00%                            |
| 5           | Required Operating Income (L4 * L1) <sup>3,4</sup> | \$ 37,000                          | \$ 13,069                        |
| 6           | Operating Income Deficiency (L5 - L2) <sup>5</sup> | \$ 68,000                          | \$ 16,432                        |
| 7           | Gross Revenue Conversion Factor                    | None                               | 1.2946                           |
| 8           | Required Revenue Increase (L7 * L6) <sup>6</sup>   | \$ 77,000                          | <b>\$ 21,274</b>                 |
| 9           | Adjusted Test Year Revenue                         | \$ 403,993                         | \$ 420,536                       |
| 10          | Proposed Annual Revenue (L8 + L9) <sup>7</sup>     | \$ 498,366                         | \$ 441,810                       |
| 11          | Required Increase in Revenue (%)                   | 19.06%                             | 5.06%                            |

References:

Column (A): Company Schedule B-1 Rate Base, Revised E-2 (9/24/2012) Income Statement  
Column (B): Staff Schedule MJR-3 & MJR-11

<sup>1</sup> The Company's application (Schedule A-1) uses Net Income as Operating Income.

<sup>2</sup> The Company's rate of return, as filed, is not a mathematical product of Operating Income divided by rate base.

<sup>3</sup> Rate base (\$496,789) times ROR (8.0%) equals \$39,743.

<sup>4</sup> The Company requests a \$30,000 water loss repair surcharge and a \$10,000 meter replacement surcharge.

<sup>5</sup> The Company's amount is not mathematically correct.

<sup>6</sup> The Company's amount is the total of Required Operating Income and both surcharges (\$37,000 + \$30,000 + \$10,000). However, the Company's request for a \$30,000 water loss surcharge only extends for two years and the \$10,000 meter replacement surcharge only extends for three years.

<sup>7</sup> Company's amount represents test year revenue (\$403,993) plus adjusted operating loss (\$17,373) plus required operating income (\$37,000) plus annual water loss surcharge (\$30,000) plus annual meter replacement surcharge (\$10,000).

GROSS REVENUE CONVERSION FACTOR

| LINE NO.   | DESCRIPTION  | (A)        | (B)       | (C)        | (D)      |
|--|--|------------|-----------|------------|----------|
| <u>Calculation of Gross Revenue Conversion Factor:</u> |  |            |           |            |          |
| 1  | Revenue  | 100.0000%  |           |            |          |
| 2  | Uncollectible Factor (Line 11)   | 0.3638%    |           |            |          |
| 3  | Revenues (L1 - L2)   | 99.6362%   |           |            |          |
| 4  | Combined Federal and State Tax Rate (Line 17) + Property Tax Factor (Line 22)                        | 22.3951%   |           |            |          |
| 5  | Subtotal (L3 - L4)   | 77.2412%   |           |            |          |
| 6  | Revenue Conversion Factor (L1 / L5)  | 1.294647   |           |            |          |
| <u>Calculation of Uncollectible Factor:</u>            |  |            |           |            |          |
| 7  | Unity  | 100.0000%  |           |            |          |
| 8  | Combined Federal and State Tax Rate (Line 17)  | 20.9228%   |           |            |          |
| 9  | One Minus Combined Income Tax Rate (L7 - L8)   | 79.0772%   |           |            |          |
| 10   | Uncollectible Rate   | 0.4600%    |           |            |          |
| 11   | Uncollectible Factor (L9 * L10)  | 0.3638%    |           |            |          |
| <u>Calculation of Effective Tax Rate:</u>              |  |            |           |            |          |
| 12   | Operating Income Before Taxes (Arizona Taxable Income)   | 100.0000%  |           |            |          |
| 13   | Arizona State Income Tax Rate  | 6.9680%    |           |            |          |
| 14   | Federal Taxable Income (L12 - L13)   | 93.0320%   |           |            |          |
| 15   | Applicable Federal Income Tax Rate (Line 53)   | 15.0000%   |           |            |          |
| 16   | Effective Federal Income Tax Rate (L14 x L15)  | 13.9548%   |           |            |          |
| 17   | Combined Federal and State Income Tax Rate (L13 + L16)   | 20.9228%   |           |            |          |
| <u>Calculation of Effective Property Tax Factor</u>    |  |            |           |            |          |
| 18   | Unity  | 100.0000%  |           |            |          |
| 19   | Combined Federal and State Tax Rate (Line 17)  | 20.9228%   |           |            |          |
| 20   | One Minus Combined Income Tax Rate (L18 - L19)   | 79.0772%   |           |            |          |
| 21   | Property Tax Factor (MJR-17, L24)  | 1.8618%    |           |            |          |
| 22   | Effective Property Tax Factor (L 21 * L 22)  | 1.4723%    |           |            |          |
| 23   | Combined Federal and State Tax and Property Tax Rate (L17+L22)                                       |            | 22.3951%  |            |          |
| 24   | Required Operating Income (Schedule MJR-1, Line 5)   | \$ 13,069  |           |            |          |
| 25   | Adjusted Test Year Operating Income (Loss) (Schedule MJR-11, Line 40)                                | \$ (3,363) |           |            |          |
| 26   | Required Increase in Operating Income (L24 - L25)  |            | \$ 16,432 |            |          |
| 27   | Income Taxes on Recommended Revenue (Col. (D), L52)  | \$ 3,458   |           |            |          |
| 28   | Income Taxes on Test Year Revenue (Col. (B), L52)  | \$ (890)   |           |            |          |
| 29   | Required Increase in Revenue to Provide for Income Taxes (L27 - L28)                                 |            | \$ 4,348  |            |          |
| 30   | Recommended Revenue Requirement (Schedule MJR-1, Line 10)  | \$ 441,810 |           |            |          |
| 31   | Uncollectible Rate (Line 10)   | 0.4600%    |           |            |          |
| 32   | Uncollectible Expense on Recommended Revenue (L24 * L25)   | \$ 2,032   |           |            |          |
| 33   | Adjusted Test Year Uncollectible Expense   | \$ 1,934   |           |            |          |
| 34   | Required Increase in Revenue to Provide for Uncollectible Exp. (L32 - L33)                           |            | \$ 98     |            |          |
| 35   | Property Tax with Recommended Revenue (MJR-17, L19)  | \$ 23,825  |           |            |          |
| 36   | Property Tax on Test Year Revenue (MJR-17, L 16)   | \$ 23,429  |           |            |          |
| 37   | Increase in Property Tax Due to Increase in Revenue (MJR-17, L22)                                    |            | \$ 396    |            |          |
| 38   | Total Required Increase in Revenue (L26 + L29 + L34+L37)   |            | \$ 21,274 |            |          |
| <u>Calculation of Income Tax:</u>                      |  |            |           |            |          |
| 39   | Revenue (Schedule MJR-11, Col.(C), Line 5 & Sch. MJR-1, Col. (B), Line 10)                           | \$ 420,536 | \$ 21,274 | \$ 441,810 |          |
| 40   | Operating Expenses Excluding Income Taxes  | \$ 424,789 |           | \$ 425,283 |          |
| 41   | Synchronized Interest (L47)  | \$ -       |           | \$ -       |          |
| 42   | Arizona Taxable Income (L36 - L317- L38)   | \$ (4,253) |           | \$ 16,527  |          |
| 43   | Arizona State Income Tax Rate  | 6.9680%    |           | 6.9680%    |          |
| 44   | Arizona Income Tax (L39 x L40)   |            | \$ (296)  |            | \$ 1,152 |
| 45   | Federal Taxable Income (L42- L43)  | \$ (3,956) |           | \$ 15,375  |          |
| 46   | Federal Tax on First Income Bracket (\$1 - \$50,000) @ 15%   | \$ (593)   |           | \$ 2,306   |          |
| 47   | Federal Tax on Second Income Bracket (\$50,001 - \$75,000) @ 25%                                     | \$ -       |           | \$ -       |          |
| 48   | Federal Tax on Third Income Bracket (\$75,001 - \$100,000) @ 34%                                     | \$ -       |           | \$ -       |          |
| 49   | Federal Tax on Fourth Income Bracket (\$100,001 - \$335,000) @ 39%                                   | \$ -       |           | \$ -       |          |
| 50   | Federal Tax on Fifth Income Bracket (\$335,001 - \$10,000,000) @ 34%                                 | \$ -       |           | \$ -       |          |
| 51   | Total Federal Income Tax   |            | \$ (593)  |            | \$ 2,306 |
| 52   | Combined Federal and State Income Tax (L44 + L51)  |            | \$ (890)  |            | \$ 3,458 |
| 53   | Applicable Federal Income Tax Rate [Col. (D), L51 - Col. (B), L51] / [Col. (C), L45 - Col. (A), L45] |            |           |            | 15.0000% |
| <u>Calculation of Interest Synchronization:</u>        |  |            |           |            |          |
| 54   | Rate Base (Schedule MJR-3, Col. (C), Line 17)  | \$ 145,210 |           |            |          |
| 55   | Weighted Average Cost of Debt  | 0.00%      |           |            |          |
| 56   | Synchronized Interest (L54 X L56)  | \$ -       |           |            |          |

CORDES LAKES WATER COMPANY  
Docket No. W-02060A-12-0356  
Test Year Ended December 31, 2011

Surrebuttal MJR-3

**RATE BASE - ORIGINAL COST**

| LINE<br>NO.                                   | (A)<br>COMPANY<br>AS<br>FILED | (B)<br>STAFF<br>ADJUSTMENTS REF | (C)<br>STAFF<br>AS<br>ADJUSTED |
|---|-------------------------------|---------------------------------|--------------------------------|
| 1 Plant in Service                            | \$ 601,634                    | \$ 535,389                      | \$ 1,137,023                   |
| 2 Less: Accumulated Depreciation              | 139,712                       | 755,284                         | 894,996                        |
| 3 Net Plant in Service                        | <u>\$ 461,922</u>             | <u>\$ (219,895)</u>             | <u>\$ 242,027</u>              |
| <u>LESS:</u>                                  |                               |                                 |                                |
| 4 Contributions in Aid of Construction (CIAC) | \$ -                          | \$ 76,247                       | \$ 76,247                      |
| 5 Less: Accumulated Amortization              | -                             | 18,710                          | 18,710                         |
| 6 Net CIAC                                    | -                             | 57,537                          | 57,537                         |
| 7 Advances in Aid of Construction (AIAC)      | 21,110                        | -                               | 21,110                         |
| 8 Customer Deposits                           | 18,170                        | -                               | 18,170                         |
| 9 Deterred Income Tax Liabilities             | -                             | -                               | -                              |
| <u>ADD:</u>                                   |                               |                                 |                                |
| 10 Unamortized Finance Charges                | -                             | -                               | -                              |
| 11 Deferred Tax Assets                        | -                             | -                               | -                              |
| 12 Working Capital                            | 74,147                        | (74,147)                        | -                              |
| 17 Original Cost Rate Base                    | <u>\$ 496,789</u>             | <u>\$ (351,579)</u>             | <u>\$ 145,210</u>              |

References:

Column (A), Company Schedule B-1,  
Column (B): Schedule MJR-4  
Column (C): Column (A) + Column (B)

SUMMARY OF ORIGINAL COST RATE BASE ADJUSTMENTS

| LINE NO.                 | ACCT. NO.                                   | DESCRIPTION                          | (A)<br>COMPANY<br>AS FILED | (B)<br>Rec. & Res Land<br>ADJ #1<br>[Ref. Sch MJR-5] | (C)<br>Used & Useful<br>ADJ #2<br>[Ref. Sch MJR-6] | (D)<br>Net Plant Additions<br>ADJ #3<br>[Ref. Sch MJR-7] | (E)<br>Acc Depr<br>ADJ #4<br>[Ref. Sch MJR-8] | (F)<br>Recognize CIAC<br>ADJ #5<br>[Ref. Sch MJR-9] | (G)<br>Working Capital<br>ADJ #6<br>[Ref. Sch MJR-10] | (H)<br>STAFF<br>ADJUSTED |
|--------------------------|---|--------------------------------------|----------------------------|--|--|--|---|---|---|--------------------------|
| <b>PLANT IN SERVICE:</b> |   |                                      |                            |  |  |  |   |   |   |                          |
| 1                        | 301   | Organization                         | \$ -                       | \$ -   | \$ -   | \$ -   | \$ -  | \$ -  | \$ -  | -                        |
| 2                        | 302   | Franchises                           | -                          | -  | -  | -  | -   | -   | -   | -                        |
| 3                        | 303   | Land and Land Rights                 | -                          | -  | -  | -  | -   | -   | -   | -                        |
| 4                        | 304   | Structures & Improvements            | 35,665                     | (35,665)   | -  | -  | -   | -   | -   | -                        |
| 5                        | 305   | Collecting & Impounding Reservoirs   | 6,657                      | -  | -  | -  | -   | -   | -   | 6,657                    |
| 6                        | 306   | Lakes, Rivers, Other Intakes         | -                          | -  | -  | -  | -   | -   | -   | -                        |
| 7                        | 307   | Wells and Springs                    | 167,348                    | -  | -  | -  | -   | -   | -   | 167,348                  |
| 8                        | 308   | Infiltration Galleries and Tunnels   | -                          | -  | -  | -  | -   | -   | -   | -                        |
| 9                        | 309   | Supply Mains                         | -                          | -  | -  | -  | -   | -   | -   | -                        |
| 10                       | 310   | Power Generation Equipment           | -                          | -  | -  | -  | -   | -   | -   | -                        |
| 11                       | 311   | Pumping Equipment                    | 26,588                     | -  | -  | -  | -   | -   | -   | 26,588                   |
| 12                       | 312   | Water Treatment Plant                | -                          | -  | -  | -  | -   | -   | -   | -                        |
| 13                       | 320   | Distribution Reservoirs & Standpipes | 141,632                    | -  | -  | -  | -   | -   | -   | 141,632                  |
| 14                       | 330   | Transmission & Distribution Mains    | 15,099                     | -  | -  | -  | -   | -   | -   | 15,099                   |
| 15                       | 331   | Services                             | -                          | -  | 582,940  | 3,898  | -   | -   | -   | 581,937                  |
| 16                       | 333   | Meters & Meter Installation          | 70,842                     | -  | 19,350   | (16,025)   | -   | -   | -   | 19,350                   |
| 17                       | 334   | Hydrants                             | -                          | -  | -  | -  | -   | -   | -   | 54,817                   |
| 18                       | 335   | Backflow Prevention Devices          | -                          | -  | -  | -  | -   | -   | -   | -                        |
| 19                       | 336   | Other Plant & Misc. Equipment        | -                          | -  | -  | -  | -   | -   | -   | -                        |
| 20                       | 339   | Office Furniture & Equipment         | 59,315                     | -  | -  | 1,235  | -   | -   | -   | 60,550                   |
| 21                       | 340   | Transportation Equipment             | 71,461                     | -  | -  | (926)  | -   | -   | -   | 71,461                   |
| 22                       | 341   | Stores Equipment                     | -                          | -  | -  | -  | -   | -   | -   | -                        |
| 23                       | 342   | Tools, Shop & Garage Equipment       | -                          | -  | -  | -  | -   | -   | -   | -                        |
| 24                       | 343   | Laboratory Equipment                 | -                          | -  | -  | -  | -   | -   | -   | -                        |
| 25                       | 344   | Power Operated Equipment             | -                          | -  | -  | -  | -   | -   | -   | -                        |
| 26                       | 345   | Communication Equipment              | -                          | -  | -  | -  | -   | -   | -   | -                        |
| 27                       | 346   | Miscellaneous Equipment              | -                          | -  | -  | -  | -   | -   | -   | -                        |
| 28                       | 347   | Other Tangible Plant                 | -                          | -  | 582  | -  | -   | -   | -   | 582                      |
| 29                       | 348   |                                      | -                          | -  | -  | -  | -   | -   | -   | -                        |
| 30                       |   |                                      | 601,634                    | (35,665)   | 582,872  | (11,818)   | -   | -   | -   | 1,137,023                |
| 31                       |   |                                      |                            |  |  |  |   |   |   |                          |
| 32                       | Add:  |                                      |                            |  |  |  |   |   |   |                          |
| 33                       |   | Post Test Year Plant                 | -                          | -  | -  | -  | -   | -   | -   | -                        |
| 34                       |   | General Office Plant Allocation      | -                          | -  | -  | -  | -   | -   | -   | -                        |
| 35                       | Less:                                       |                                      |                            |  |  |  |   |   |   |                          |
| 36                       |   |                                      | -                          | -  | -  | -  | -   | -   | -   | -                        |
| 37                       |   |                                      | -                          | -  | -  | -  | -   | -   | -   | -                        |
| 38                       |   |                                      | -                          | -  | -  | -  | -   | -   | -   | -                        |
| 39                       | Total Plant in Service                      |                                      | \$ 601,634                 | \$ (35,665)  | \$ 582,872   | \$ (11,818)  | \$ 755,284                                    | \$ -  | \$ -  | \$ 1,137,023             |
| 40                       | Less: Accumulated Depreciation              |                                      | 139,712                    | -  | -  | -  | -   | -   | -   | 894,986                  |
| 41                       |   |                                      |                            |  |  |  |   |   |   |                          |
| 42                       | Net Plant in Service (L59 - L 60)           |                                      | \$ 461,922                 | \$ (35,665)  | \$ 582,872   | \$ (11,818)  | \$ (755,284)                                  | \$ -  | \$ -  | \$ 242,027               |
| 43                       | LESS:                                       |                                      |                            |  |  |  |   |   |   |                          |
| 44                       | Contributions in Aid of Construction (CIAC) |                                      | -                          | -  | -  | -  | -   | -   | -   | -                        |
| 45                       | Less: Accumulated Amortization              |                                      | -                          | -  | -  | -  | -   | -   | -   | -                        |
| 46                       | Net CIAC (L25 - L26)                        |                                      | -                          | -  | -  | -  | -   | -   | -   | -                        |
| 47                       | Advances in Aid of Construction (AIAC)      |                                      | 21,110                     | -  | -  | -  | -   | -   | -   | 76,247                   |
| 48                       | Customer Deposits                           |                                      | 18,170                     | -  | -  | -  | -   | -   | -   | 18,170                   |
| 49                       | Deferred Tax Liabilities                    |                                      | -                          | -  | -  | -  | -   | -   | -   | -                        |
| 50                       |   |                                      | -                          | -  | -  | -  | -   | -   | -   | -                        |
| 51                       | ADD:  |                                      |                            |  |  |  |   |   |   |                          |
| 52                       | Unamortized Finance Charges                 |                                      | -                          | -  | -  | -  | -   | -   | -   | -                        |
| 53                       | Deferred Tax Assets                         |                                      | -                          | -  | -  | -  | -   | -   | -   | -                        |
| 54                       | Working Capital                             |                                      | 74,147                     | -  | -  | -  | -   | -   | (74,147)  | -                        |
| 55                       |   |                                      |                            |  |  |  |   |   |   |                          |
| 56                       | Original Cost Rate Base                     |                                      | \$ 496,789                 | \$ (35,665)  | \$ 582,872   | \$ (11,818)  | \$ (755,284)                                  | \$ (57,537)   | \$ (74,147)   | \$ 145,210               |

CORDES LAKES WATER COMPANY  
Docket No. W-02060A-12-0356  
Test Year Ended December 31, 2011

Surrebuttal MJR - 5

RATE BASE ADJUSTMENT #1 - REMOVE NON-USED AND USEFUL LAND

| Line<br>No. | DESCRIPTION | [A]<br>COMPANY<br>PROPOSED | [B]<br>STAFF<br>ADJUSTMENTS | [C]<br>STAFF<br>RECOMMENDED |
|-------------|-------------|----------------------------|-----------------------------|-----------------------------|
| 1           | Land        | \$ 35,665                  | \$ (35,665)                 | \$ -                        |

References:

Col [A]: Company Schedule B-1

Col [B]: Col [C] - Col [A]

Col [C]: MJR Testimony

CORDES LAKES WATER COMPANY  
Docket No. W-02060A-12-0356  
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Surrebuttal MJR-6

**RATE BASE ADJUSTMENT #2 REINSTATE USED AND USEFULL PLANT**

| LINE<br>NO. | ACCT<br>NO. | DESCRIPTION                       | [A]<br>COMPANY<br>2006 Balance<br>AS<br>FILED | [B]<br>Decision No.<br>70170<br>STAFF<br>ADJUSTMENTS | [C]<br>STAFF<br>RECOMMENDED |
|-------------|-------------|-----------------------------------|---|--|-----------------------------|
|             |             |                                   |   |  |                             |
| 1           | 311         | Pumping Equipment                 | \$ 10,558                                     | \$ -   | \$ 10,558                   |
| 2           | 331         | Transmission & Distribution Mains | 9,444   | 562,940  | 572,384                     |
| 3           | 333         | Services                          | -   | 19,350   | 19,350                      |
| 4           | 347         | Miscellaneous Equipment           | -   | 582  | 582                         |
| 5           |             | Totals                            | <u>\$ 20,002</u>                              | <u>\$ 582,872</u>                                    | <u>\$ 602,874</u>           |

[A]: Company Schedule E-5 and Detail 11/8/2012

[B]: Col [C] - Col [A]

[C]:MJR Testimony

CORDES LAKES WATER COMPANY  
Docket No. W-02060A-12-0356  
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Surrebuttal MJR-7

**RATE BASE ADJUSTMENT #3 NET PLANT ADDITIONS**

| LINE<br>NO. | ACCT<br>NO. | DESCRIPTION                       | [A]<br>COMPANY<br>Additions<br>11/8/2012 | [B]<br>STAFF<br>ADJUSTMENTS | [C]<br>STAFF<br>RECOMMENDED |
|-------------|-------------|-----------------------------------|--|-----------------------------|-----------------------------|
|             |             |                                   |  |                             |                             |
| 1           | 331         | Transmission & Distribution Mains | \$ 5,655                                 | \$ 3,898                    | \$ 9,553                    |
| 2           | 334         | Meters & Meter Installation       | 35,253                                   | (16,025)                    | 19,228                      |
| 3           | 339         | Other Plant & Misc. Equipment     | 5,166                                    | 1,235                       | 6,401                       |
| 4           | 340         | Office Furniture & Equipment      | 2,537                                    | (926)                       | 1,611                       |
| 5           |             | Totals                            | <u>\$ 48,611</u>                         | <u>\$ (11,818)</u>          | <u>\$ 36,793</u>            |

[A]: Company Schedule E-5 and Detail provided 11/8/2012

[B]: Col [C] - Col [A]

[C]:MJR Testimony



CORDES LAKES WATER COMPANY  
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Test Year Ended December 31, 2011

Surrebuttal MJR-8

RATE BASE ADJUSTMENT #4 - ACCUMULATED DEPRECIATION

| LINE<br>NO. | DESCRIPTION              | [A]<br>COMPANY<br>PROPOSED | [B]<br>STAFF<br>ADJUSTMENTS | [C]<br>STAFF<br>RECOMMENDED |
|-------------|--------------------------|----------------------------|-----------------------------|-----------------------------|
| 1           | Accumulated Depreciation | \$ 139,712                 | \$ 755,284                  | \$ 894,996                  |

References:

Col [A]: Company Schedule B-1  
Col [B]: Col [C] - Col [A]  
Col [C]: MJR Testimony

CORDES LAKES WATER COMPANY  
Docket No. W-02060A-12-0356  
Test Year Ended December 31, 2011

Surrebuttal MJR-9

**RATE BASE ADJUSTMENT #5 - CIAC AND ACCUMULATED AMORTIZATION OF CIAC**

| LINE<br>NO. | DESCRIPTION                          | [A]<br>COMPANY<br>PROPOSED | [B]<br>STAFF<br>ADJUSTMENTS | [C]<br>STAFF<br>RECOMMENDED |
|-------------|--------------------------------------|----------------------------|-----------------------------|-----------------------------|
| 1           | Contributions in aid of construction | \$ -                       | \$ 76,247                   | \$ 76,247                   |
| 2           | Accumulated Amortization of CIAC     | \$ -                       | \$ 18,710                   | \$ 18,710                   |

References:

Col [A]: Company Schedule B-1

Col [B]: Col [C] - Col [A]

Col [C]: Decision 70170

CORDES LAKES WATER COMPANY  
Docket No. W-02060A-12-0356  
Test Year Ended December 31, 2011

Surrebuttal MJR-10

**RATE BASE ADJUSTMENT #6 - WORKING CAPITAL ALLOWANCE**

| LINE<br>NO. | DESCRIPTION               | [A]<br>COMPANY<br>PROPOSED | [B]<br>STAFF<br>ADJUSTMENTS | [C]<br>STAFF<br>RECOMMENDED |
|-------------|---------------------------|----------------------------|-----------------------------|-----------------------------|
| 1           | Working Capital Allowance | \$ 74,147                  | \$ (74,147)                 | \$ -                        |

References:

Col [A]: Company Schedule B-1

Col [B]: Col [C] - Col [A]

Col [C]: MJR Testimony

OPERATING INCOME STATEMENT - ADJUSTED TEST YEAR AND STAFF RECOMMENDED

Surrebuttal MJR-11

| LINE NO. | DESCRIPTION                                   | [A]<br>COMPANY<br>ADJUSTED<br>TEST YEAR<br>AS FILED | [B]<br>STAFF<br>TEST YEAR<br>ADJUSTMENTS | [C]<br>STAFF<br>TEST YEAR<br>AS<br>ADJUSTED | [D]<br>STAFF<br>PROPOSED<br>CHANGES | [E]<br>STAFF<br>RECOMMENDED |
|----------|---|---|--|---|-------------------------------------|-----------------------------|
| 1        | <u>REVENUES:</u>                              |   |  |   |                                     |                             |
| 2        | Metered Water Sales                           | \$ 403,353  | \$ 9,093                                 | \$ 412,446                                  | \$ 21,274                           | \$ 433,720                  |
| 3        | Received for Contract Labor                   | 167,692   | (167,692)                                | -   | -                                   | -                           |
| 4        | Miscellaneous Revenue                         | 640   | 7,450                                    | 8,090                                       | -                                   | 8,090                       |
| 5        | <b>Total Operating Revenues</b>               | <b>\$ 571,685</b>                                   | <b>\$ (151,149)</b>                      | <b>\$ 420,536</b>                           | <b>\$ 21,274</b>                    | <b>\$ 441,810</b>           |
| 6        | <u>OPERATING EXPENSES:</u>                    |   |  |   |                                     |                             |
| 7        | Payroll                                       | \$ 309,095  | \$ (167,692)                             | \$ 141,403                                  | \$ -                                | \$ 141,403                  |
| 10       | Contract Labor                                | 10,312  | -  | 10,312                                      | -                                   | 10,312                      |
| 11       | Employee Benefits                             | 29,422  | -  | 29,422                                      | -                                   | 29,422                      |
| 13       | Purchased Power                               | 31,723  | -  | 31,723                                      | -                                   | 31,723                      |
| 14       | Repairs and Maintenance                       | 12,650  | 1,012                                    | 13,662                                      | -                                   | 13,662                      |
| 15       | Office Supplies and Expense                   | 14,491  | -  | 14,491                                      | -                                   | 14,491                      |
| 16       | Outside Services - Accounting                 | 3,660   | 6,340                                    | 10,000                                      | -                                   | 10,000                      |
| 17       | Outside Services - Billing Services           | 24,118  | -  | 24,118                                      | -                                   | 24,118                      |
| 18       | Outside Services - Computer Programming       | 3,511   | -  | 3,511                                       | -                                   | 3,511                       |
| 19       | Water Testing                                 | 1,806   | 4,052                                    | 5,858                                       | -                                   | 5,858                       |
| 20       | Rents   | 28,150  | -  | 28,150                                      | -                                   | 28,150                      |
| 21       | Transportation Expenses                       | 8,995   | -  | 8,995                                       | -                                   | 8,995                       |
| 22       | Insurance - General Liability                 | 33,033  | -  | 33,033                                      | -                                   | 33,033                      |
| 23       | Insurance - Health and Life                   | 14,936  | -  | 14,936                                      | -                                   | 14,936                      |
| 24       | Rate Case Expense                             | -   | 6,000                                    | 6,000                                       | -                                   | 6,000                       |
| 25       | Regulatory Expense                            | -   | -  | -   | -                                   | -                           |
| 26       | Misc Expense - Permits                        | 2,000   | -  | 2,000                                       | -                                   | 2,000                       |
| 27       | Misc Expense - Travel                         | -   | -  | -   | -                                   | -                           |
| 28       | Misc. Expenses - Utilities except Electricity | 3,391   | -  | 3,391                                       | -                                   | 3,391                       |
| 29       | Misc. Expenses - Bank Charges                 | 1,304   | 1,934                                    | 3,238                                       | 98                                  | 3,336                       |
| 30       | Misc. Expenses - Payroll Services             | 859   | -  | 859   | -                                   | 859                         |
| 31       | Depreciation Expense                          | 37,195  | (22,162)                                 | 15,033                                      | -                                   | 15,033                      |
| 32       | Payroll Taxes                                 | 175   | -  | 175   | -                                   | 175                         |
| 33       | Taxes other than Income (Sales Tax)           | -   | -  | -   | -                                   | -                           |
| 34       | Property Taxes                                | 18,187  | 5,242                                    | 23,429                                      | 396                                 | 23,825                      |
| 35       | Income Tax                                    | 45  | (935)                                    | (890)                                       | 4,348                               | 3,458                       |
| 36       | Interest Income                               | -   | -  | -   | -                                   | -                           |
| 37       | Interest Expense                              | -   | 1,050                                    | 1,050                                       | -                                   | 1,050                       |
| 38       |   |   |  |   |                                     |                             |
| 39       | <b>Total Operating Expenses</b>               | <b>\$ 589,058</b>                                   | <b>\$ (165,159)</b>                      | <b>\$ 423,899</b>                           | <b>\$ 4,842</b>                     | <b>\$ 428,741</b>           |
| 40       | <b>Operating Income (Loss)</b>                | <b>\$ (17,373)</b>                                  | <b>\$ 14,010</b>                         | <b>\$ (3,363)</b>                           | <b>\$ 16,432</b>                    | <b>\$ 13,069</b>            |

References:

Column (A): Company Revised Schedule E-2, 11/8/2012  
Column (B): Schedule Surrebuttal MJR-12  
Column (C): Column (A) + Column (B)  
Column (D): Surrebuttal Schedules MJR-1 and MJR-2  
Column (E): Column (C) + Column (D)

SUMMARY OF OPERATING INCOME STATEMENT ADJUSTMENTS - TEST YEAR

| LINE NO. | DESCRIPTION                                   | (A) COMPANY AS FILED 9/24/2012 | (B) Contract Labor ADJ #1 Ref. Sch MJR-13 | (C) Repairs & Maint ADJ #2 Ref. Sch MJR-14 | (D) Metered Rev ADJ #3 Ref. Sch MJR-15 | (E) Dep. Exp. ADJ #4 Ref. Sch MJR-16 | (F) Prop. Tax ADJ #5 Ref. Sch MJR-17 | (G) Inc. Tax ADJ #6 Ref. Sch MJR-18 | (H) Water Treating ADJ #7 Ref. Sch MJR-19 | (I) Unmetered Rev ADJ #8 Ref. Sch MJR-20 | (J) Customer Dep ADJ #9 Ref. Sch MJR-21 | (K) Rate Case Expense ADJ #10 Ref. Sch MJR-22 | (L) Outside Accts Svcs ADJ #11 Ref. Sch MJR-23 | (M) Bad Debt ADJ #12 Ref. Sch MJR-24 | (N) STAFF ADJUSTED |
|----------|---|--------------------------------|---|--|--|--------------------------------------|--------------------------------------|-------------------------------------|---|--|---|---|--|--------------------------------------|--------------------|
| 1        | REVENUES:                                     |                                |   |  |  |                                      |                                      |                                     |   |  |   |   |  |                                      |                    |
| 2        | Watered Revenue                               | \$ 403,353                     |   |  | \$ 9,093                               |                                      |                                      |                                     |   |  |   |   |  |                                      | \$ 412,446         |
| 3        | Revenue for Contract Labor                    | \$ 167,692                     | \$ (167,692)                              |  |  |                                      |                                      |                                     |   |  |   |   |  |                                      | \$ 8,090           |
| 4        | Other Water Revenue                           | \$ 840                         |   |  |  |                                      |                                      |                                     |   |  |   |   |  |                                      |                    |
| 5        | Total Operating Revenues                      | \$ 571,885                     | \$ (167,692)                              |  | \$ 9,093                               |                                      |                                      |                                     |   | \$ 7,450                                 |   |   |  |                                      | \$ 420,536         |
| 6        | OPERATING EXPENSES:                           |                                |   |  |  |                                      |                                      |                                     |   |  |   |   |  |                                      |                    |
| 7        | Contract Labor                                | \$ 308,095                     | \$ (167,692)                              |  |  |                                      |                                      |                                     |   |  |   |   |  |                                      | \$ 141,403         |
| 8        | Employee Benefits                             | 10,312                         |   |  |  |                                      |                                      |                                     |   |  |   |   |  |                                      | 10,312             |
| 9        | Purchased Power                               | 29,422                         |   |  |  |                                      |                                      |                                     |   |  |   |   |  |                                      | 29,422             |
| 10       | Repairs and Maintenance                       | 31,723                         |   |  |  |                                      |                                      |                                     |   |  |   |   |  |                                      | 31,723             |
| 11       | Miscellaneous Expenses                        | 12,850                         |   | 1,012                                      |  |                                      |                                      |                                     |   |  |   |   |  |                                      | 13,862             |
| 12       | Outside Services - Accounting                 | 3,660                          |   |  |  |                                      |                                      |                                     |   |  |   |   | 6,340  |                                      | 10,000             |
| 13       | Outside Services - Billing Services           | 24,118                         |   |  |  |                                      |                                      |                                     |   |  |   |   |  |                                      | 24,118             |
| 14       | Outside Services - Centralex Programming      | 3,511                          |   |  |  |                                      |                                      |                                     |   |  |   |   |  |                                      | 3,511              |
| 15       | Water Treating                                | 1,806                          |   |  |  |                                      |                                      |                                     | 4,052                                     |  |   |   |  |                                      | 5,858              |
| 16       | Profit  | 8,090                          |   |  |  |                                      |                                      |                                     |   |  |   |   |  |                                      | 8,090              |
| 17       | Medical Insurance                             | 8,895                          |   |  |  |                                      |                                      |                                     |   |  |   |   |  |                                      | 8,895              |
| 18       | Liability Insurance                           | 33,033                         |   |  |  |                                      |                                      |                                     |   |  |   |   |  |                                      | 33,033             |
| 19       | Rate Case Expense                             | 14,836                         |   |  |  |                                      |                                      |                                     |   |  |   | 6,000   |  |                                      | 20,836             |
| 20       | Regulatory Expense                            |                                |   |  |  |                                      |                                      |                                     |   |  |   |   |  |                                      |                    |
| 21       | Capital Expenditures                          | 2,000                          |   |  |  |                                      |                                      |                                     |   |  |   |   |  |                                      | 2,000              |
| 22       | Miscellaneous - Travel                        | 3,391                          |   |  |  |                                      |                                      |                                     |   |  |   |   |  |                                      | 3,391              |
| 23       | Misc. Expenses - Utilities except Electricity | 1,304                          |   |  |  |                                      |                                      |                                     |   |  |   |   |  |                                      | 1,304              |
| 24       | Misc. Expenses - Bank Charges                 | 659                            |   |  |  |                                      |                                      |                                     |   |  |   |   |  | 1,834                                | 3,238              |
| 25       | Misc. Expenses - Payroll Services             | 37,150                         |   |  |  |                                      |                                      |                                     |   |  |   |   |  |                                      | 37,150             |
| 26       | Property Tax                                  | 175                            |   |  |  |                                      |                                      |                                     |   |  |   |   |  |                                      | 15,331             |
| 27       | Taxes other than Income (Sales Tax)           | 16,187                         |   |  |  |                                      |                                      |                                     |   |  |   |   |  |                                      | 15,175             |
| 28       | Property Taxes                                | 45                             |   |  |  |                                      |                                      |                                     |   |  |   |   |  |                                      | 23,429             |
| 29       | Income Tax                                    |                                |   |  |  |                                      |                                      |                                     |   |  |   |   |  |                                      | (690)              |
| 30       | Interest Expense                              |                                |   |  |  |                                      |                                      |                                     |   |  |   |   |  |                                      | 1,050              |
| 31       | Total Operating Expenses                      | \$ 588,058                     | \$ (167,692)                              | \$ 1,012                                   | \$ 9,093                               | \$ (22,162)                          | \$ 5,242                             | \$ (335)                            | \$ 4,052                                  | \$ 7,450                                 | \$ 1,050                                | \$ 6,000                                      | \$ 6,340                                       | \$ 1,834                             | \$ 423,999         |
| 32       | Operating Income (Loss)                       | \$ (17,173)                    |   | \$ (1,012)                                 |  | \$ 22,162                            | \$ (5,242)                           | \$ 335                              | \$ (4,052)                                |  | \$ (1,050)                              | \$ (6,000)                                    | \$ (6,340)                                     | \$ (1,834)                           | \$ (3,363)         |

Reference:

Column (A): Company Revised Schedule E-2, 1/16/2012

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Surrebuttal MJR-13

OPERATING INCOME ADJUSTMENT #1 - REMOVE NON-UTILITY REVENUES AND EXPENSES FOR CONTRACT LABOR

| LINE<br>NO. | DESCRIPTION             | [A]<br>COMPANY<br>PROPOSED | [B]<br>STAFF<br>ADJUSTMENTS | [C]<br>STAFF<br>RECOMMENDED |
|-------------|-------------------------|----------------------------|-----------------------------|-----------------------------|
| 1           | Contract Labor Revenue  | \$ 167,692                 | \$ (167,692)                | \$ -                        |
| 2           | Payroll                 | \$ 167,692                 | (167,692)                   | \$ -                        |
| 3           | Operating Income Affect | \$ -                       | \$ -                        | \$ -                        |

References:

Col [A]: Company Schedule E-2

Col [B]: Col [C] - Col [A]

Col [C]: MJR Testimony

CORDES LAKES WATER COMPANY  
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Test Year Ended December 31, 2011

Surrebuttal MJR-14

OPERATING INCOME ADJUSTMENT #2 - NORMALIZATION OF REPAIRS & MAINTENANCE EXPENSES

| LINE<br>NO. | DESCRIPTION                                       | [A]<br>COMPANY<br>PROPOSED | [B]<br>STAFF<br>ADJUSTMENTS | [C]<br>STAFF<br>RECOMMENDED |
|-------------|---|----------------------------|-----------------------------|-----------------------------|
| 1           | Repairs & Maintenance                             | \$ 12,650                  | \$ 1,012                    | \$ 13,662                   |
| 2           | Repairs & Maintenance - Company's Test Year: 2011 |                            |                             | \$ 12,650                   |
| 3           | Repairs & Maintenance - 2010 Annual Stmt          |                            |                             | 17,221                      |
| 4           | Repairs & Maintenance - 2009 Annual Stmt          |                            |                             | 11,116                      |
| 5           | Repairs & Maintenance expenses, past three years  |                            |                             | \$ 40,987                   |
| 6           | Average Repair & Maintenance expense (line 5/3)   |                            |                             | \$ 13,662                   |

References:

Col [A]: Company Schedule C-1

Col [B]: Col [C] - Col [A]

Col [C]: Normalized Repairs & Maintenance Expense Col [C] L6.

CORDES LAKES WATER COMPANY  
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Surrebuttal MJR-15

OPERATING INCOME ADJUSTMENT #3 - METERED REVENUE

| LINE<br>NO. | DESCRIPTION     | [A]<br>COMPANY<br>PROPOSED | [B]<br>STAFF<br>ADJUSTMENTS | [C]<br>STAFF<br>RECOMMENDED |
|-------------|-----------------|----------------------------|-----------------------------|-----------------------------|
| 1           | Metered Revenue | \$ 403,353                 | \$ 9,093                    | \$ 412,446                  |

References:

Col [A]: Company Schedule E-2 Revised 9/24/2012

Col [B]: Col [C] - Col [A]

Col [C]: MJR Testimony

Bill Count Revenue

|                |                   |
|----------------|-------------------|
| 3/4 inch Meter | \$ 404,597        |
| 1 inch Meter   | 2,397             |
| 2 inch Meter   | 5,452             |
| Subtotal       | <u>\$ 412,446</u> |



OPERATING INCOME ADJUSTMENT #4 - DEPRECIATION EXPENSE

| Line No.                | ACCT NO. | DESCRIPTION  | [A]<br>AMOUNT | Depreciable Amount | [B]<br>Projected RATE | [C]<br>EXPENSE |
|-------------------------|----------|--|---------------|--------------------|-----------------------|----------------|
| <b>Plant In Service</b> |          |  |               |                    |                       |                |
| 1                       | 301      | Organization   | \$ -          | \$ -               | 0.00%                 | \$ -           |
| 2                       | 302      | Franchises   | -             | -                  | 0.00%                 | -              |
| 3                       | 303      | Land and Land Rights   | -             | -                  | 0.00%                 | -              |
| 4                       | 304      | Structures & Improvements  | 6,657         | 4,400              | 3.33%                 | 147            |
| 5                       | 305      | Collecting & Impounding Reservoirs   | -             | -                  | 2.50%                 | -              |
| 6                       | 306      | Lakes, Rivers, Other Intakes   | -             | -                  | 2.50%                 | -              |
| 7                       | 307      | Wells and Springs  | 167,348       | 151,979            | 3.33%                 | 5,061          |
| 8                       | 308      | Infiltration Galleries and Tunnels   | -             | -                  | 6.67%                 | -              |
| 9                       | 309      | Supply Mains   | -             | -                  | 2.00%                 | -              |
| 10                      | 310      | Power Generation Equipment   | -             | -                  | 5.00%                 | -              |
| 11                      | 311      | Pumping Equipment  | 26,588        | 16,030             | 12.50%                | 2,004          |
| 12                      | 320      | Water Treatment Plant  | -             | -                  | 3.33%                 | -              |
| 13                      | 330      | Distribution Reservoirs & Standpipes   | 141,632       | 94,458             | 2.22%                 | 2,097          |
| 14                      | 331      | Transmission & Distribution Mains  | 581,937       | 19,442             | 2.00%                 | 389            |
| 15                      | 333      | Services   | 19,350        | -                  | 3.33%                 | -              |
| 16                      | 334      | Meters & Meter Installation  | 54,817        | 47,078             | 8.33%                 | 3,922          |
| 17                      | 335      | Hydrants   | -             | -                  | 2.00%                 | -              |
| 18                      | 336      | Backflow Prevention Devices  | -             | -                  | 6.67%                 | -              |
| 19                      | 339      | Other Plant & Misc. Equipment  | 60,550        | 60,550             | 6.67%                 | 4,039          |
| 20                      | 340      | Office Furniture & Equipment   | 6,101         | 6,101              | 6.67%                 | 407            |
| 21                      | 341      | Transportation Equipment   | 71,461        | 2,412              | 20.00%                | 482            |
| 22                      | 342      | Stores Equipment   | -             | -                  | 4.00%                 | -              |
| 23                      | 343      | Tools, Ship & Garage Equipment   | -             | -                  | 5.00%                 | -              |
| 24                      | 344      | Laboratory Equipment   | -             | -                  | 10.00%                | -              |
| 25                      | 345      | Power Operated Equipment   | -             | -                  | 5.00%                 | -              |
| 26                      | 346      | Communication Equipment  | -             | -                  | 10.00%                | -              |
| 27                      | 347      | Miscellaneous Equipment  | 582           | -                  | 10.00%                | -              |
| 28                      | 348      | Other Tangible Plant   | -             | -                  | 0.00%                 | -              |
| 29                      |          | Subtotal General   | \$ 1,137,023  | \$ 402,450         |                       | \$ 18,547      |
| 30                      |          | Less: Non- depreciable Account(s) (L3)   | -             | -                  |                       | -              |
| 31                      |          | Depreciable Plant (L29-L30)  | \$ 1,137,023  | \$ 402,450         |                       |                |
| 32                      |          | Contributions-in-Aid-of-Construction (CIAC) Per Decision No. 54526 (1/28/1985) - Not Amortized | \$ 76,247     |                    |                       |                |
| 33                      |          | Composite Depreciation/Amortization Rate   | 4.61%         |                    |                       |                |
| 34                      |          | Less: Amortization of CIAC (L32 x L33)   |               |                    |                       | \$ 3,514       |
| 35                      |          | Depreciation Expense - STAFF [Col. (C), L29 - L34]   |               |                    |                       | \$ 15,033      |

| LINE NO. | DESCRIPTION          | [A]<br>COMPANY PROPOSED | [B]<br>STAFF ADJUSTMENT | [C]<br>STAFF RECOMMENDED |
|----------|----------------------|-------------------------|-------------------------|--------------------------|
| 36       | Depreciation Expense | \$ 37,195               | \$ (22,162)             | \$ 15,033                |

References:

Col [A]: MJR-4  
Col [B]: Decision No. 70170 and updated Plant Schedules  
Col [C]: MJR Testimony

CORDES LAKES WATER COMPANY  
Docket No. W-02060A-12-0356  
Test Year Ended December 31, 2011

Surrebuttal MJR-17

**OPERATING INCOME ADJUSTMENT #5 - PROPERTY TAXES**

| LINE<br>NO. | Property Tax Calculation  | (C)                  |                      |
|-------------|---|----------------------|----------------------|
|             |   | STAFF<br>AS ADJUSTED | STAFF<br>RECOMMENDED |
| 1           | Staff Adjusted Test Year Revenues - 2011                                  | \$ 420,536           | \$ 420,536           |
| 2           | Weight Factor   | 2                    | 2                    |
| 3           | Subtotal (Line 1 * Line 2)  | 841,073              | \$ 841,073           |
| 4           | Staff Recommended Revenue, Per Schedule MJR-1                             | 420,536              | \$ 441,810           |
| 5           | Subtotal (Line 4 + Line 5)  | 1,261,609            | 1,282,882            |
| 6           | Number of Years   | 3                    | 3                    |
| 7           | Three Year Average (Line 5 / Line 6)                                      | 420,536              | 427,627              |
| 8           | Department of Revenue Multiplier  | 2                    | 2                    |
| 9           | Revenue Base Value (Line 7 * Line 8)                                      | 841,073              | 855,255              |
| 10          | Plus: 10% of CWIP -   | -                    | -                    |
| 11          | Less: Net Book Value of Licensed Vehicles                                 | 2,171                | 2,171                |
| 12          | Full Cash Value (Line 9 + Line 10 - Line 11)                              | 838,902              | \$ 853,084           |
| 13          | Assessment Ratio  | 20.0%                | 20.0%                |
| 14          | Assessment Value (Line 12 * Line 13)                                      | 167,780              | \$ 170,617           |
| 15          | Composite Property Tax Rate   | 13.9638%             | 13.9638%             |
| 16          | Staff Test Year Adjusted Property Tax (Line 14 * Line 15)                 | \$ 23,429            | \$ -                 |
| 17          | Company Proposed Property Tax   | 18,187               |                      |
| 18          | Staff Test Year Adjustment (Line 16-Line 17)                              | \$ 5,242             |                      |
| 19          | Property Tax - Staff Recommended Revenue (Line 14 * Line 15)              |                      | \$ 23,825            |
| 20          | Staff Test Year Adjusted Property Tax Expense (Line 16)                   |                      | \$ 23,429            |
| 21          | Increase in Property Tax Expense Due to Increase in Revenue Requirement   |                      | \$ 396               |
| 22          | Increase to Property Tax Expense  |                      | \$ 396               |
| 23          | Increase in Revenue Requirement   |                      | 21,274               |
| 24          | Increase to Property Tax per Dollar Increase in Revenue (Line 22/Line 23) |                      | 1.861840%            |

CORDES LAKES WATER COMPANY  
Docket No. W-02060A-12-0356  
Test Year Ended December 31, 2011

Surrebuttal MJR-18

OPERATING INCOME ADJUSTMENT #6 - TEST YEAR INCOME TAXES

| LINE<br>NO. | DESCRIPTION        | [A]<br>COMPANY<br>PROPOSED | [B]<br>STAFF<br>ADJUSTMENTS | [C]<br>STAFF<br>RECOMMENDED |
|-------------|--------------------|----------------------------|-----------------------------|-----------------------------|
| 1           | Income Tax Expense | \$ 45                      | \$ (935)                    | \$ (890)                    |

References:

Col [A]: Company Schedule E-2 Revised 9/24/2012

Col [B]: Col [C] - Col [A]

Col [C]: Schedule MJR-2, Line 43

CORDES LAKES WATER COMPANY  
Docket No. W-02060A-12-0356  
Test Year Ended December 31, 2011

Surrebuttal MJR-19

OPERATING INCOME ADJUSTMENT #7 WATER TESTING

| LINE<br>NO. | DESCRIPTION           | [A]<br>COMPANY<br>PROPOSED | [B]<br>STAFF<br>ADJUSTMENTS | [C]<br>STAFF<br>RECOMMENDED |
|-------------|-----------------------|----------------------------|-----------------------------|-----------------------------|
| 1           | Water Testing Expense | \$ 1,806                   | \$ 4,052                    | \$ 5,858                    |

References:

Col [A]: Company Schedule E-2  
Col [B]: Col [C] - Col [A]  
Col [C]: Engineering Report

CORDES LAKES WATER COMPANY  
Docket No. W-02060A-12-0356  
Test Year Ended December 31, 2011

Surebuttal MJR-20

**OPERATING INCOME ADJUSTMENT #8 - NON-METERED REVENUE FEES**

| LINE<br>NO. | DESCRIPTION              | [A]<br>COMPANY<br>PROPOSED<br>9/24/2012 | [B]<br>STAFF<br>ADJUSTMENTS | [C]<br>STAFF<br>RECOMMENDED |
|-------------|--------------------------|---|-----------------------------|-----------------------------|
| 1           | Misc Income Net          | \$ 640                                  | \$ (640)                    | \$ -                        |
| 2           | Establishment            | -                                       | \$ 6,825                    | 6,825                       |
| 3           | Reconnection             | -                                       | \$ 1,045                    | 1,045                       |
| 4           | After Hours Reconnection | -                                       | \$ 150                      | 150                         |
| 5           | Re-Establishment         | -                                       | \$ 70                       | 70                          |
| 6           |                          | \$ 640                                  | \$ 7,450                    | \$ 8,090                    |

|                          |                                 |
|--------------------------|---------------------------------|
|                          | COMPANY<br>Revised<br>8/17/2012 |
| Misc Income Net          | \$ -                            |
| Establishment            | 6,825                           |
| Reconnection             | 1,045                           |
| After Hours Reconnection | 150                             |
| Re-Establishment         | 70                              |

References:

Col [A]: Company Schedule A-2 (B)  
Col [B]: Col [C] - Col [A]  
Col [C]: Schedule Column A plus Column B

CORDES LAKES WATER COMPANY  
Docket No. W-02060A-12-0356  
Test Year Ended December 31, 2011

Surrebuttal MJR-21

OPERATING INCOME ADJUSTMENT #9 - INTEREST ON CUSTOMER DEPOSITS

| LINE |                               | [A]                 | [B]                  | [C]                  |
|------|-------------------------------|---------------------|----------------------|----------------------|
| NO.  | DESCRIPTION                   | COMPANY<br>PROPOSED | STAFF<br>ADJUSTMENTS | STAFF<br>RECOMMENDED |
| 1    | Interest on Customer Deposits | \$ -                | \$ 1,050             | \$ 1,050             |

References:

Col [A]: Company Schedule A-2 (B)  
Col [B]: Col [C] - Col [A]  
Col [C]: MJR Testimony

CORDES LAKES WATER COMPANY  
Docket No. W-02060A-12-0356  
Test Year Ended December 31, 2011

Surrebuttal MJR-22

OPERATING INCOME ADJUSTMENT #10 - RATE CASE EXPENSE

| LINE |                   | [A]                         | [B]                          | [C]                          |
|------|-------------------|-----------------------------|------------------------------|------------------------------|
| NO.  | DESCRIPTION       | <u>COMPANY<br/>PROPOSED</u> | <u>STAFF<br/>ADJUSTMENTS</u> | <u>STAFF<br/>RECOMMENDED</u> |
| 1    | Rate Case Expense | <u>\$ -</u>                 | <u>\$ 6,000</u>              | <u>\$ 6,000</u>              |

References:

Col [A]: Company Schedule E-2

Col [B]: Col [C] - Col [A]

Col [C]: MJR Surrebuttal Testimony

CORDES LAKES WATER COMPANY  
Docket No. W-02060A-12-0356  
Test Year Ended December 31, 2011

Surrebuttal MJR-23

OPERATING INCOME ADJUSTMENT #11 - OUTSIDE ACCOUNTING SERVICES

| LINE       |                              | [A]                               | [B]                                | [C]                                |
|------------|------------------------------|-----------------------------------|------------------------------------|------------------------------------|
| <u>NO.</u> | <u>DESCRIPTION</u>           | <u>COMPANY</u><br><u>PROPOSED</u> | <u>STAFF</u><br><u>ADJUSTMENTS</u> | <u>STAFF</u><br><u>RECOMMENDED</u> |
| 1          | Outside Sevices - Accounting | <u>\$ 3,660</u>                   | <u>\$ 6,340</u>                    | <u>\$ 10,000</u>                   |

References:

Col [A]: Company Schedule E-2

Col [B]: Col [C] - Col [A]

Col [C]: MJR Surrebuttal Testimony



OPERATING INCOME ADJUSTMENT #12 - BAD DEBT EXPENSE

| LINE |                              | [A]                 | [B]                  | [C]                  |
|------|------------------------------|---------------------|----------------------|----------------------|
| NO.  | DESCRIPTION                  | COMPANY<br>PROPOSED | STAFF<br>ADJUSTMENTS | STAFF<br>RECOMMENDED |
| 1    | Misc. Expense - Bank Charges | \$ 1,304            | \$ -                 | \$ 1,304             |
| 2    | Bad Debt Expense             | -                   | \$ 1,934             | 1,934                |
| 3    | Total                        | <u>\$ 1,304</u>     | <u>\$ 1,934</u>      | <u>\$ 3,238</u>      |
|      | \$ 43 Write-off in 2007      |                     |                      |                      |
|      | 1,488 Write-off in 2008      |                     |                      |                      |
|      | 4,079 Write-off in 2009      |                     |                      |                      |
|      | 2,048 Write-off in 2010      |                     |                      |                      |
|      | <u>\$ 7,658</u>              |                     |                      |                      |
|      | 4.00 Years                   |                     |                      |                      |
|      | <u>\$ 1,914</u>              |                     |                      |                      |
|      | \$ 420,536 Test Year Revenue |                     |                      |                      |
|      | 0.46% Average write-off rate |                     |                      |                      |

References:

Col [A]: Company Schedule E-2

Col [B]: Col [C] - Col [A]

Col [C]: MJR Surrebuttal Testimony

### RATE DESIGN

| Monthly Usage Charge         | Present                     |          | -Proposed Rates- |      |
|------------------------------|-----------------------------|----------|------------------|------|
|                              | Rates                       | Company  | Staff            |      |
| <u>5/8" x 3/4" Meter</u>     | N/A                         | N/A      | N/A              |      |
| 3/4" Meter                   | \$ 11.00                    | \$ 13.50 | \$ 11.50         |      |
| 1" Meter                     | 19.50                       | 24.50    | 20.00            |      |
| 1 1/2" Meter                 | 39.00                       | 48.75    | 39.00            |      |
| 2" Meter                     | 62.50                       | 78.00    | 62.50            |      |
| 3" Meter                     | 125.00                      | 156.00   | 125.00           |      |
| 4" Meter                     | 220.00                      | 275.00   | 192.50           |      |
| 6" Meter                     | 390.00                      | 485.00   | 385.00           |      |
| 8" Meter                     | N/A                         | N/A      | N/A              |      |
| 10" Meter                    | N/A                         | N/A      | N/A              |      |
| 12" Meter                    | N/A                         | N/A      | N/A              |      |
| Gallons Included in Minimum  | 0                           | 0        | 0                |      |
| <u>Commodity Rate Charge</u> |                             |          |                  |      |
| <u>3/4" Meter</u>            |                             |          |                  |      |
| <u>Company</u>               |                             |          |                  |      |
| Tier 1                       | From 0 to 3,000 gallons     | 2.80     | 3.30             |      |
| Tier 2                       | From 3,001 to 8,000 gallons | 4.30     | 5.25             |      |
| Tier 3                       | Over 8,000 gallons          | 5.00     | 6.00             |      |
| <u>Staff</u>                 |                             |          |                  |      |
| Tier 1                       | From 0 to 3,000 gallons     |          |                  | 2.80 |
| Tier 2                       | From 3,001 to 8,000 gallons |          |                  | 4.20 |
| Tier 3                       | Over 8,000 gallons          |          |                  | 6.45 |
| <u>1" Meter</u>              |                             |          |                  |      |
| <u>Company</u>               |                             |          |                  |      |
| Tier 1                       | From 0 to 18,000 gallons    | 4.30     | 5.25             |      |
| Tier 2                       | Over 18,000 gallons         | 5.00     | 6.00             |      |
| <u>Staff</u>                 |                             |          |                  |      |
| Tier 1                       | From 0 to 10,000 gallons    |          |                  | 4.20 |
| Tier 2                       | Over 10,000 gallons         |          |                  | 6.45 |
| <u>1 1/2" Meter</u>          |                             |          |                  |      |
| <u>Company</u>               |                             |          |                  |      |
| Tier 1                       | From 0 to 43,500 gallons    | 4.30     | 5.25             |      |
| Tier 2                       | Over 43,500 gallons         | 5.00     | 6.00             |      |
| <u>Staff</u>                 |                             |          |                  |      |
| Tier 1                       | From 0 to 17,000 gallons    |          |                  | 4.20 |
| Tier 2                       | Over 17,000 gallons         |          |                  | 6.45 |
| <u>2" Meter</u>              |                             |          |                  |      |
| <u>Company</u>               |                             |          |                  |      |
| Tier 1                       | From 0 to 75,000 gallons    | 4.30     | 5.25             |      |
| Tier 2                       | Over 75,000 gallons         | 5.00     | 6.00             |      |
| <u>Staff</u>                 |                             |          |                  |      |
| Tier 1                       | From 0 to 26,000 gallons    |          |                  | 4.20 |
| Tier 2                       | Over 26,000 gallons         |          |                  | 6.45 |
| <u>3" Meter</u>              |                             |          |                  |      |
| <u>Company</u>               |                             |          |                  |      |
| Tier 1                       | From 0 to 160,000 gallons   | 4.30     | 5.25             |      |
| Tier 2                       | Over 160,000 gallons        | 5.00     | 6.00             |      |
| <u>Staff</u>                 |                             |          |                  |      |
| Tier 1                       | From 0 to 50,000 gallons    |          |                  | 4.20 |
| Tier 2                       | Over 50,000 gallons         |          |                  | 6.45 |
| <u>4" Meter</u>              |                             |          |                  |      |
| <u>Company</u>               |                             |          |                  |      |
| Tier 1                       | From 0 to 290,000 gallons   | 4.30     | 5.25             |      |
| Tier 2                       | Over 290,000 gallons        | 5.00     | 6.00             |      |
| <u>Staff</u>                 |                             |          |                  |      |
| Tier 1                       | From 0 to 75,000 gallons    |          |                  | 4.20 |
| Tier 2                       | Over 75,000 gallons         |          |                  | 6.45 |
| <u>6" Meter</u>              |                             |          |                  |      |
| <u>Company</u>               |                             |          |                  |      |
| Tier 1                       | From 0 to 530,000 gallons   | 4.30     | 5.25             |      |
| Tier 2                       | Over 530,000 gallons        | 5.00     | 6.00             |      |
| <u>Staff</u>                 |                             |          |                  |      |
| Tier 1                       | From 0 to 150,000 gallons   |          |                  | 4.20 |
| Tier 2                       | Over 150,000 gallons        |          |                  | 6.45 |

**RATE DESIGN**

Service Line and Meter Installation Charges

|                   | N/T      | N/T           | Service Line | Meter Installation | Total    |
|-------------------|----------|---------------|--------------|--------------------|----------|
|                   |          |               | N/T          | N/T                | N/T      |
| 5/8" x 3/4" Meter |          |               |              |                    |          |
| 3/4" Meter        | 520.00   | Same as Staff | 426.00       | 198.00             | 624.00   |
| 1" Meter          | 610.00   | Same as Staff | 486.00       | 246.00             | 732.00   |
| 1 1/2" Meter      | 855.00   | Same as Staff | 528.00       | 498.00             | 1,026.00 |
| 2" Meter          | 1,515.00 | Same as Staff | 720.00       | 1,098.00           | 1,818.00 |
| 3" Meter          | 2,195.00 | Same as Staff | 930.00       | 1,764.00           | 2,694.00 |
| 4" Meter          | 3,360.00 | Same as Staff | 1,332.00     | 2,700.00           | 4,032.00 |
| 6" Meter          | 6,115.00 | Same as Staff | 2,000.00     | 5,350.00           | 7,350.00 |

Service Charges

|   |         |         |         |
|---|---------|---------|---------|
| Establishment                                 | \$25.00 | \$30.00 | \$30.00 |
| Establishment (After Hours)                   | \$35.00 | \$40.00 | NT      |
| Reconnection (Delinquent)                     | \$15.00 | \$20.00 | \$20.00 |
| Reconnection (Delinquent) After Hours         | \$25.00 | \$30.00 | NT      |
| NSF Check                                     | \$12.50 | \$15.00 | \$15.00 |
| Meter Re-Read (If Correct)                    | \$10.00 | \$12.00 | \$12.00 |
| Meter Test (If Correct)                       | \$25.00 | \$30.00 | \$30.00 |
| Deferred Payment (per Month)                  | 1.5%    | 1.5%    | ***     |
| Deposit Amount                                | *       | *       | *       |
| Deposit Interest                              | *       | *       | *       |
| Re-Establishment (Within 12 Months)           | **      | **      | **      |
| Late Fee (per Month)                          | 1.5%    | 1.5%    | ***     |
| Road Cutting or Boring                        | Cost    | Cost    | Cost    |
| After Hours Service Charge (Customer Request) | N/T     | N/T     | \$35.00 |

NT = No Tariff

Monthly Service Charge for Fire Sprinkler

|                 |        |        |      |
|-----------------|--------|--------|------|
| 4" or Smaller   | \$0.00 | \$0.00 | **** |
| 6"              | 0.00   | 0.00   | **** |
| 8"              | 0.00   | 0.00   | **** |
| 10"             | 0.00   | 0.00   | **** |
| Larger than 10" | 0.00   | 0.00   | **** |

- \* Per Commission Rules (R14-2-403.B)
- \*\* Months off system times the minimum (R14-2-403.D)
- \*\*\* 1.5% on the unpaid balance per month
- \*\*\*\* 2.00% of Monthly Minimum for a Comparable Sized Meter Connection, but no less than \$10.00 per month. The Service Charge for Fire Sprinklers is only applicable for service lines separate and distinct from the primary water service line.

CORDES LAKES WATER COMPANY  
Docket No. W-02060A-12-0356  
Test Year Ended December 31, 2011

Surrebuttal MJR-26

## TYPICAL BILL ANALYSIS

General Service 3/4 - Inch Meter

Average Number of Customers: 1,291

| <u>Company Proposed</u> | <u>Gallons</u> | <u>Present Rates</u> | <u>Proposed Rates</u> | <u>Dollar Increase</u> | <u>Percent Increase</u> |
|-------------------------|----------------|----------------------|-----------------------|------------------------|-------------------------|
| Average Usage           | 4,169          | \$24.42              | \$29.54               | \$5.11                 | 20.92%                  |
| Median Usage            | 3,088          | \$19.78              | \$23.86               | \$4.08                 | 20.65%                  |

| <u>Staff Recommend</u> |       |         |         |        |       |
|------------------------|-------|---------|---------|--------|-------|
| Average Usage          | 4,169 | \$24.42 | \$24.81 | \$0.38 | 1.57% |
| Median Usage           | 3,088 | \$19.78 | \$20.27 | \$0.49 | 2.48% |

### Present & Proposed Rates (Without Taxes) General Service 3/4 - Inch Meter

| <u>Gallons Consumption</u> | <u>Present Rates</u> | <u>Company Proposed Rates</u> | <u>% Increase</u> | <u>Staff Proposed Rates</u> | <u>% Increase</u> |
|----------------------------|----------------------|-------------------------------|-------------------|-----------------------------|-------------------|
| 0                          | \$11.00              | \$13.50                       | 22.73%            | \$11.50                     | 4.55%             |
| 1,000                      | 13.80                | 16.80                         | 21.74%            | 14.30                       | 3.62%             |
| 2,000                      | 16.60                | 20.10                         | 21.08%            | 17.10                       | 3.01%             |
| 3,000                      | 19.40                | 23.40                         | 20.62%            | 19.90                       | 2.58%             |
| 4,000                      | 23.70                | 28.65                         | 20.89%            | 24.10                       | 1.69%             |
| 5,000                      | 28.00                | 33.90                         | 21.07%            | 28.30                       | 1.07%             |
| 6,000                      | 32.30                | 39.15                         | 21.21%            | 32.50                       | 0.62%             |
| 7,000                      | 36.60                | 44.40                         | 21.31%            | 36.70                       | 0.27%             |
| 8,000                      | 40.90                | 49.65                         | 21.39%            | 40.90                       | 0.00%             |
| 9,000                      | 45.90                | 55.65                         | 21.24%            | 47.35                       | 3.16%             |
| 10,000                     | 50.90                | 61.65                         | 21.12%            | 53.80                       | 5.70%             |
| 15,000                     | 75.90                | 91.65                         | 20.75%            | 86.05                       | 13.37%            |
| 20,000                     | 100.90               | 121.65                        | 20.56%            | 118.30                      | 17.24%            |
| 25,000                     | 125.90               | 151.65                        | 20.45%            | 150.55                      | 19.58%            |
| 50,000                     | 250.90               | 301.65                        | 20.23%            | 311.80                      | 24.27%            |
| 75,000                     | 375.90               | 451.65                        | 20.15%            | 473.05                      | 25.84%            |
| 100,000                    | 500.90               | 601.65                        | 20.11%            | 634.30                      | 26.63%            |
| 125,000                    | 625.90               | 751.65                        | 20.09%            | 795.54                      | 27.10%            |
| 150,000                    | 750.90               | 901.65                        | 20.08%            | 956.79                      | 27.42%            |
| 175,000                    | 875.90               | 1,051.65                      | 20.07%            | 1,118.04                    | 27.64%            |
| 200,000                    | 1,000.90             | 1,201.65                      | 20.06%            | 1,279.29                    | 27.81%            |

BEFORE THE ARIZONA CORPORATION COMMISSION

BOB STUMP

Chairman

GARY PIERCE

Commissioner

BRENDA BURNS

Commissioner

BOB BURNS

Commissioner

SUSAN BITTER SMITH

Commissioner

IN THE MATTER OF THE APPLICATION OF )  
CORDES LAKES WATER COMPANY FOR )  
AN INCREASE IN ITS RATES )  
\_\_\_\_\_ )

DOCKET NO. W-02060A-12-0356

SURREBUTTAL

TESTIMONY

OF

MARY J. RIMBACK

PUBLIC UTILITIES ANALYST

UTILITIES DIVISION

ARIZONA CORPORATION COMMISSION

MAY 17, 2013

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| Operating Income Adj. No. 6 – Income Tax Expense .....   | MJR-18 |
| Operating Income Adj. No. 7 – Water Testing Expense .....  | MJR-19 |
| Operating Income Adj. No. 8 – Unmetered Revenue .....  | MJR-20 |
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| Operating Income Adj. No. 10 – Rate Case Expense .....   | MJR-22 |
| Operating Income Adj. No. 11 – Outside Accounting Services .....                                   | MJR-23 |
| Operating Income Adj. No. 12 – Bad Debt Expense .....  | MJR-24 |
| Rate Design .....  | MJR-25 |
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**EXECUTIVE SUMMARY  
CORDES LAKES WATER COMPANY  
DOCKET NO. W-02060A-12-0356**

The Surrebuttal Testimony of Staff witness Mary J. Rimback addresses the issues of rate base, operating income, revenue requirement, and rate design for Cordes Lakes Water Company ("Cordes Lakes" or "Company").

The Company's Rebuttal Testimony requests an increase in revenue of \$50,372 (11.95 percent) increase over test year revenue of \$420,536. The total annual revenue of \$470,807 produces operating income of \$23,508 for a 10.55 percent rate of return on fair value rate base ("FVRB") which is also its original cost rate basis ("OCRB") of \$222,825. The Company's Rebuttal Testimony withdraws the request for surcharges made in its original rate application.

The Utilities Division ("Staff") recommends total operating revenue of \$441,810, a \$21,274 (5.06 percent) increase over the \$420,536 Staff-adjusted test year revenue, to provide a \$13,069 operating income and a 9.0 percent rate of return on the \$145,210 Staff-adjusted FVRB and OCRB. Staff's Surrebuttal revenue requirement represents a \$13,072 increase from its Direct Testimony. Staff recommended rates would increase the typical 5/8 x 3/4-inch meter residential water bill with median usage of \$3,088 by \$0.49 (2.48 percent) from \$19.78 to \$20.27.

1     **I.     INTRODUCTION**

2     **Q.     Please state your name, occupation, and business address.**

3     A.     My name is Mary J. Rimback; I am a Public Utilities Analyst Arizona Corporation  
4             Commission ("ACC" or "Commission") in the Utilities Division ("Staff"). My business  
5             address is 1200 West Washington Street, Phoenix, Arizona 85007.

6  
7     **Q.     Are you the same Mary J. Rimback who previously submitted Direct Testimony in**  
8             **this case?**

9     A.     Yes, I am.

10

11    **Q.     How is your testimony organized?**

12    A.     My testimony is presented in four sections. Section I is this introduction. Section II  
13             provides the purpose of the testimony. Section III is a summary of recommendations.  
14             Section IV presents Staff's response to the Rebuttal Testimony of Mr. Matthew Rowell.

15

16    **II.    PURPOSE OF SURREBUTTAL TESTIMONY**

17    **Q.     What is the purpose of your Surrebuttal Testimony in this proceeding?**

18    A.     The purpose of my Surrebuttal Testimony in this proceeding is to respond to the Rebuttal  
19             Testimony of Cordes Lakes Water Company ("Cordes Lakes" or "Company") witness Mr.  
20             Matthew Rowell and to present Staff's Surrebuttal position regarding rate base, operating  
21             income, revenue requirement and rate design issues.

22



1 **Q. Do you attempt to address every issue raised by the Company in its Rebuttal**  
2 **Testimony?**

3 A. No, my silence on any particular issue raised in the Company's Rebuttal Testimony does  
4 not indicate that Staff agrees with the Company's rebuttal position on that issue. I rely on  
5 my Direct Testimony unless modified by this Surrebuttal Testimony.

6  
7 **Q. What issues will you address?**

8 A. My Surrebuttal Testimony addresses the following issues presented in Rebuttal Testimony  
9 of Mr. Rowell:

- 10  
11 1) Contributions in Aid of Construction ("CIAC") balance and CIAC amortization  
12 2) Real property included in rate base  
13 3) Bad debt expense  
14 4) Staff's plant disallowance  
15 5) Rate Case Expense  
16 6) Post Test Year Plant  
17 7) Accounting Expenses  
18 8) Purchased Power Expenses  
19 9) Revenue Requirement and Rate Design  
20

21 **III. SUMMARY OF RECOMMENDATIONS**

22 **Q. What Rebuttal revenue requirement is the Company proposing?**

23 A. The Company's Rebuttal Testimony is requesting total operating revenue of \$470,807, a  
24 \$50,271 or an 11.95 percent increase over test year revenue of \$420,536, to provide a  
25 \$23,508 operating income and a 10.55 percent rate of return on a proposed \$222,825 fair

1 value rate base ("FVRB") which is also the Company-proposed original cost rate base  
2 ("OCRB").  
3

4 **Q. Please provide a summary of Staff's Surrebuttal recommendations.**

5 A. The Staff's Surrebuttal revenue requirement of \$441,810 represents an increase of \$21,274  
6 or 5.06 percent over test year revenue of \$420,536 to provide a \$13,069 operating income  
7 and a 9.00 percent rate of return on a proposed \$145,210 fair value rate base ("FVRB").  
8 Staff's Surrebuttal revenue requirement represents a \$13,072 increase from its Direct  
9 Testimony. Staff's recommended rates would increase the typical 5/8 x 3/4-inch meter  
10 residential water bill with median usage of 3,088 gallons by \$0.49 (2.48 percent), from  
11 \$19.78 to \$20.27.  
12

13 **IV. RESPONSE TO REBUTTAL TESTIMONY OF MATTHEW ROWELL**

14 *CIAC Balance and Accumulated Amortization of CIAC*

15 **Q. What is the Company proposing for CIAC and Accumulated Amortization of CIAC**  
16 **in its Rebuttal?**

17 A. The Company's Rebuttal proposes \$92,754 for CIAC and \$53,720 for Accumulated  
18 Amortization of CIAC resulting in a \$39,034 Net CIAC balance. The Company presents  
19 Schedule 1 that list CIAC and CIAC amortizations for the period beginning in 1999 and  
20 continuing through to December 31, 2012. The Company provided no support for the  
21 amounts presented in Schedule 1. The Company also asserts that Staff misinterpreted  
22 Decision No. 54526 and that the CIAC that Decision directed not to be amortized refers to  
23 additional advances to be converted to CIAC that are not included in Staff \$76,247 CIAC  
24 balance. Further the Company claims that these additional CIAC amounts pertain to the  
25 Verde Village System that the City of Cottonwood condemned and that the CIAC

1 associated with the Verde Village System would have been conveyed with the  
2 condemnation.

3  
4 **Q. What is Staff's response to the Company's assertions regarding CIAC and**  
5 **Accumulated Amortization of CIAC?**

6 A. First, it appears that Staff and the Company agree that the CIAC related to the Verde  
7 Village System should not be included in rate base. Second, whether the CIAC balance  
8 should reflect amortization is determined by the Commission Orders. Staff has further  
9 reviewed Decision Nos. 54526 and 70170<sup>1</sup> for the Company's prior two rate cases and  
10 concluded that Decision No. 54526 did not authorize amortization of CIAC; however,  
11 Decision No. 70170 did authorize amortization of CIAC. The latter authorization is  
12 inferred by the adoption of Staff's recommendations which included Staff's depreciation  
13 expenses. Staff Surrebuttal Schedule GTM-18 in that case shows that Staff deducted an  
14 amount for the amortization of CIAC in its calculation of depreciation expense. Thus,  
15 amortization of the \$76,247 CIAC balance should have begun on the effective date of  
16 rates in the prior rate case, but not before that date. Staff's Surrebuttal reflects the  
17 accumulation of amortization from March 2008 through the end of the test year.

18  
19 **Q. How did Staff calculate depreciation expense in Surrebuttal Schedule GTM-18 in the**  
20 **prior rate case?**

21 A. Schedule GTM-18 shows that Staff recommended \$25,137 for depreciation expense. The  
22 recommended depreciation expense represents a gross (prior to CIAC amortization)  
23 depreciation of \$30,063 reduced by \$4,926 for the amortization of CIAC. The  
24 amortization of CIAC is calculated using a composite rate of depreciation expense. The

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<sup>1</sup> Docket No.W-02060A-07-0256 (February 28, 2008).

1 composite rate is the depreciation expense for the test year divided by the amount of  
2 depreciable plant in the test year.

3  
4 **Q. What adjustment does Staff recommend for CIAC and Accumulated Amortization**  
5 **of CIAC?**

6 A. Staff recommends the CIAC balance adopted in Decision No. 70170 of \$76,247 and an  
7 accumulated amortization of CIAC balance adjusted upward from \$0 in Direct Testimony  
8 to \$18,710. The accumulated amortization balance is based on the composite rate of  
9 depreciation expense for each annual period from March 1, 2008, through the end of the  
10 test year December 31, 2011, as shown in Surrebuttal Schedule MJR-9. Amortization of  
11 CIAC in the test year of \$3,514 is deducted from depreciation expense as shown in  
12 Surrebuttal Schedule MJR-16.

13  
14 *Real Property included in Rate Base*

15 **Q. Did the Company's Rebuttal Testimony propose to revise from its original**  
16 **application the amount of real property it is proposing to include in rate base?**

17 A. Yes. The Company's original filing proposed including \$35,665 for *Land and Land*  
18 *Rights*. Staff removed this amount entirely because the investment pertains to a parcel of  
19 land that is not used and useful, and the Company's Rebuttal position agrees with Staff's  
20 determination for that parcel. However, in Rebuttal the Company claims that its books  
21 carry a balance of \$85,599 for land, and therefore is requesting to include the \$49,934  
22 (\$85,599 - \$35,665) balance in rate base.

1 **Q. What support did the Company provide for its revised land request?**

2 A. The Company's only support is Schedule 3 attached to the Rebuttal Testimony of  
3 Company witness Mr. Matthew Rowell and a statement that this is a reasonable amount  
4 considering that its wells and booster pumps are positioned on land.

5  
6 **Q. Does Staff consider the Company's support for its land request adequate?**

7 A. No. The Company should provide support showing the owner's name, date(s), transaction  
8 values, locations and dimensions of the claimed land along with an explanation of the  
9 plant located on each parcel. Also if this land is for utility use, the Company should  
10 explain why its Schedule 3 shows five sales transactions reducing the land account  
11 balance.

12  
13 **Q. What does Staff recommend?**

14 A. Staff continues to recommend disallowance of all amounts the Company requests for  
15 including land in rate base

16  
17 *Bad Debt Expense*

18 **Q. Did the Company's Rebuttal Testimony introduce a new request for bad debt**  
19 **expense?**

20 A. Yes, the Company in its Rebuttal Testimony is requesting \$4,049 for bad debt expense -  
21 all of which it recorded in October of 2011.

22  
23 **Q. What are Staff's comments regarding bad debt expense?**

24 A. Bad debt expense typically varies significantly from year to year for various reasons  
25 including the variances in the consistency used by the Company to write-off receivables.  
26 Thus, it is appropriate to review a multi-year history of bad debts to determine whether a

1 normalized amount is more representative of the likely on-going amount versus the actual  
2 test year amount. In response to Staff data request MJR 2-1, the Company provided  
3 support to the following write-offs by year: 2007, \$43; 2008, \$1,488; 2009, \$4,079 and  
4 2010, \$2,048 which Staff calculated as approximately 0.46 percent of revenue.  
5 Accordingly, Staff concludes that normalizing bad debt expense at 0.46 percent of  
6 revenues is appropriate.

7  
8 **Q. What does Staff recommend for bad debts expense?**

9 A. Staff recommends \$1,934 for test year bad debt expense, as shown in Surrebuttal Schedule  
10 MJR-24 and recognition of a 0.46 percent bad debt rate in the gross revenue conversion  
11 factor, as shown in Surrebuttal Schedule MJR-2.

12  
13 *Plant Disallowance*

14 **Q. Did Staff request the Company to provide support for all plant additions since the**  
15 **end of the test year (December 31, 2006) in the prior rate case?**

16 A. Yes, Staff requested invoices to support all amounts added to plant since test year 2006.

17  
18 **Q. Did the Company provide invoices to verify all of its plant additions from 2006**  
19 **through the test year?**

20 A. Not completely, the Company provided invoices for \$97,600 of the \$100,635 plant  
21 additions in its application, a shortfall of \$3,035.

22  
23 **Q. Did Staff's recommended \$11,818 disallowance its Direct Testimony include this**  
24 **\$3,035 shortfall?**

25 A. Yes.  
26

1 **Q. Does Exhibit 4 in the Company's Rebuttal Testimony represent the invoice for the**  
2 **\$3,035 shortfall as it claims?**

3 A. No. Exhibit 4 attached to the Company's Rebuttal Testimony is a copy of an invoice  
4 amounting to \$20,299. Handwritten on the invoice are the amounts: CLWC \$6,766 and  
5 BWC \$13,533 indicating that \$6,766 pertains to Cordes Lakes and \$13,533 pertains to  
6 Berneil Water Company (Cordes Lakes and Berneil Water Company ("BWC") have  
7 common ownership). Neither of these amounts account for the \$3,035 of missing invoices  
8 for the claimed plant. The \$6,766.67 charge to Cordes Lakes is not the missing \$3,035,  
9 and while Schedule 2 of the Company's Rebuttal Testimony labels the amount of \$13,533  
10 for Invoice No. S1016897 as a missing amount, as noted above, the handwriting on the  
11 invoice (Rebuttal Exhibit 4) indicates that the \$13,533 amount is for BWC, not Cordes  
12 Lakes.

13  
14 **Q. Does the Company have a written capitalization policy?**

15 A. No. Staff asked the Company whether it had a written capitalization policy, and it replied  
16 that it did not have a written capitalization policy. In response to Staff Data Request  
17 MJR1-10, the Company gave the following explanation of its expense versus capitalized  
18 method:

19  
20 Almost all purchases are expensed or are considered section 179 property  
21 for tax purposes. The decision is based upon how long the items are  
22 expected to last. There is no written policy. During the test year a  
23 replacement pump was expensed for \$5,200.

24  
25 **Q. How did Staff interpret the Company statement regarding capitalization versus**  
26 **expensing costs?**

27 A. The Company's response indicates to Staff that its dollar capitalization threshold is greater  
28 than \$5,200. However, absence of a written policy increases the potential for inconsistent

1 application of the Company's capitalization policy. The statement also implies that the  
2 Company utilizes tax accounting versus the Commission authorized National Association  
3 of Regulatory Utility Commissioners ("NARUC") Uniform System of Accounts  
4 ("USoA").  
5

6 **Q. Is the Company's proposed capitalization as shown in Exhibit 5 of its Rebuttal**  
7 **Testimony consistent with the explanation it provided Staff of its capitalization**  
8 **policy?**

9 A. No. The Company's explanation of its capitalization policy indicates that it expenses  
10 instead of capitalizing amounts of \$5,200 or less. Exhibit 5 shows the Company  
11 capitalizing the much lower amount of \$865. The Company apparently does not  
12 consistently apply a capitalization policy, and its proposed capitalization of the costs as  
13 shown on Schedule 2 of its Rebuttal Testimony is not supported by its policy.  
14

15 **Q. What does Staff recommend regarding plant additions since the prior rate case?**

16 A. Staff continues to recommend the \$11,818 disallowance of plant that it recommended in  
17 Direct Testimony. Staff also recommends that the Company adopt a written capitalization  
18 policy.  
19

20 *Rate Case Expense*

21 **Q. Did the Company newly propose an amount for rate case expense in its Rebuttal**  
22 **Testimony?**

23 A. Yes, the Company proposed to amortize \$18,000 of rate case expense over three years,  
24 i.e., \$6,000 per year.  
25



1 **Q. What does Staff recommend?**

2 A. Staff recommends approval of the Company's request to include \$6,000 for annual rate  
3 case expense as an amortization of \$18,000 over three years, as shown in Surrebuttal  
4 Schedule MJR-22. Staff also recommends that the Order specify that no rate case expense  
5 from this case is to be included in rates in any future rate case.  
6

7 *Post Test Year Plant*

8 **Q. Did the Company's Rebuttal Testimony increase plant, accumulated depreciation**  
9 **and depreciation expense by amounts attributed to post-test year plant?**

10 A. Yes, the Company proposes to include in rate base post-test year plant in the amount of  
11 \$16,324 (\$7,680 for 2013 and \$8,643 for 2012) and to increase accumulated depreciation  
12 by \$2,641 and to increase depreciation expense by \$1,560.  
13

14 **Q. Did the Company provide support for any of its requested post-test year plant?**

15 A. No. The Company needs to provide documentation of its proposed post-test year plant  
16 improvements for them to be considered in rates.  
17

18 **Q. What is Staff's recommendation?**

19 A. Staff recommends not including the Company's proposed post-test year amounts in the  
20 rate base or expenses without adequate documentation.  
21

22 *Accounting Expenses*

23 **Q. Does the Company request in its Rebuttal Testimony an increase operating expense**  
24 **for outside accounting services?**

25 A. Yes, the Company requests to increase by \$6,340, from \$3,660 to \$10,000 its outside  
26 accounting services expense.

1 **Q. What is Staff's recommendation as to the outside accounting services?**

2 A. Staff recommends approval of the revised accounting services expense to \$10,000 subject  
3 to the Company submitting documentation of entering a contract for accounting services  
4 prior to the date of the hearing in this rate proceeding, as shown in Surrebuttal Schedule  
5 MJR-23.  
6

7 *Purchased Power Expenses*

8 **Q. Did the Company's Rebuttal Testimony request a pro forma adjustment to increase**  
9 **purchased power expense?**

10 A. Yes, the Company requests a pro forma \$917 increase in purchased power expense due to  
11 changes in the charges the Commission authorized in its power provider (APS) in  
12 Decision No. 73183.  
13

14 **Q. Did the Company provide any support for the amount of its pro form request in its**  
15 **Rebuttal Testimony?**

16 A. No. While Staff supports the concept of recognizing a pro forma adjustment for the  
17 change in the rates charged by the Company's power provider, the Company has not  
18 provided calculations to support its \$917 quantification of the impact on its purchased  
19 power costs. Absent this support, Staff does not recommend adoption of this pro forma  
20 request.  
21

22 *Revenue Requirement and Rate Design*

23 **Q. Did Staff update its rate design to reflect its Surrebuttal revenue requirement?**

24 A. Yes.  
25

1 **Q. Does Staff have any comments regarding the Company's Rebuttal Testimony**  
2 **pertaining to the issue of rate design?**

3 A. Yes. The Company's primary concern with Staff's rate design is that it does not provide  
4 the level of revenue stability the Company desires. To support its position the Company  
5 notes that Staff assigned all of the revenue increase to the second and third commodity  
6 rate tiers and the recommended rate design generates 41 percent of the revenue from the  
7 monthly minimum charges and 59 percent from the commodity charges.

8  
9 Staff's assignment of the entire revenue increase to the commodity rates was a function of  
10 the relatively small revenue increase. Since Staff typically targets generating 30 percent  
11 to 40 percent of the revenue from the minimum monthly charge, the 41 percent result is  
12 consistent with providing adequate revenue stability. Since Staff's Surrebuttal rate design  
13 generates more revenue than its direct rate design, Staff is now recommending increases to  
14 the monthly minimum charges for some meter sizes. In addition, Staff's Surrebuttal rate  
15 design reduces the break-over points to provide additional revenue stability. Staff's  
16 Surrebuttal rate design generates 41.6 percent of the revenue from the minimum monthly  
17 charges and 58.4 percent from the commodity rates. Staff's recommended rates are shown  
18 in Schedule MJR-24 and the typical bill analysis for 3/4-inch meter customers is shown in  
19 Schedule MJR-25.

20  
21 **Q. Does this conclude your testimony?**

22 A. Yes, it does.

CORDES LAKES WATER COMPANY

Docket No. W-02060A-12-0356

Test Year Ended December 31, 2011

SURREBUTTAL TESTIMONY OF Mary J. Rimback

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REVENUE REQUIREMENT

| LINE<br>NO. | DESCRIPTION  | (A)<br>COMPANY<br>ORIGINAL<br>COST | (B)<br>STAFF<br>ORIGINAL<br>COST |
|-------------|--|------------------------------------|----------------------------------|
| 1           | Adjusted Rate Base                                 | \$ 496,789                         | \$ 145,210                       |
| 2           | Adjusted Operating Income (Loss) <sup>1</sup>      | \$ (17,373)                        | \$ (3,363)                       |
| 3           | Current Rate of Return (L2 / L1) <sup>2</sup>      | 0.00%                              | -2.32%                           |
| 4           | Required Rate of Return                            | 8.00%                              | 9.00%                            |
| 5           | Required Operating Income (L4 * L1) <sup>3,4</sup> | \$ 37,000                          | \$ 13,069                        |
| 6           | Operating Income Deficiency (L5 - L2) <sup>5</sup> | \$ 68,000                          | \$ 16,432                        |
| 7           | Gross Revenue Conversion Factor                    | None                               | 1.2946                           |
| 8           | Required Revenue Increase (L7 * L6) <sup>6</sup>   | \$ 77,000                          | \$ 21,274                        |
| 9           | Adjusted Test Year Revenue                         | \$ 403,993                         | \$ 420,536                       |
| 10          | Proposed Annual Revenue (L8 + L9) <sup>7</sup>     | \$ 498,366                         | \$ 441,810                       |
| 11          | Required Increase in Revenue (%)                   | 19.06%                             | 5.06%                            |

References:

Column (A): Company Schedule B-1 Rate Base, Revised E-2 (9/24/2012) Income Statement

Column (B): Staff Schedule MJR-3 & MJR-11

<sup>1</sup> The Company's application (Schedule A-1) uses Net Income as Operating Income.

<sup>2</sup> The Company's rate of return, as filed, is not a mathematical product of Operating Income divided by rate base.

<sup>3</sup> Rate base (\$496,789) times ROR (8.0%) equals \$39,743.

<sup>4</sup> The Company requests a \$30,000 water loss repair surcharge and a \$10,000 meter replacement surcharge.

<sup>5</sup> The Company's amount is not mathematically correct.

<sup>6</sup> The Company's amount is the total of Required Operating Income and both surcharges (\$37,000 + \$30,000 + \$10,000). However, the Company's request for a \$30,000 water loss surcharge only extends for two years and the \$10,000 meter replacement surcharge only extends for three years.

<sup>7</sup> Company's amount represents test year revenue (\$403,993) plus adjusted operating loss (\$17,373) plus required operating income (\$37,000) plus annual water loss surcharge (\$30,000) plus annual meter replacement surcharge (\$10,000).

GROSS REVENUE CONVERSION FACTOR

| LINE NO.  | DESCRIPTION  | (A)        | (B)       | (C)        | (D)      |
|---|--|------------|-----------|------------|----------|
| <u>Calculation of Gross Revenue Conversion Factor</u> |  |            |           |            |          |
| 1   | Revenue  | 100.0000%  |           |            |          |
| 2   | Uncollectible Factor (Line 11)   | 0.3638%    |           |            |          |
| 3   | Revenues (L1 - L2)   | 99.6362%   |           |            |          |
| 4   | Combined Federal and State Tax Rate (Line 17) + Property Tax Factor (Line 22)                        | 22.3951%   |           |            |          |
| 5   | Subtotal (L3 - L4)   | 77.2412%   |           |            |          |
| 6   | Revenue Conversion Factor (L1 / L5)  | 1.294647   |           |            |          |
| <u>Calculation of Uncollectible Factor</u>            |  |            |           |            |          |
| 7   | Unity  | 100.0000%  |           |            |          |
| 8   | Combined Federal and State Tax Rate (Line 17)  | 20.9228%   |           |            |          |
| 9   | One Minus Combined Income Tax Rate (L7 - L8)   | 79.0772%   |           |            |          |
| 10  | Uncollectible Rate   | 0.4600%    |           |            |          |
| 11  | Uncollectible Factor (L9 * L10)  | 0.3638%    |           |            |          |
| <u>Calculation of Effective Tax Rate</u>              |  |            |           |            |          |
| 12  | Operating Income Before Taxes (Arizona Taxable Income)   | 100.0000%  |           |            |          |
| 13  | Arizona State Income Tax Rate  | 6.9680%    |           |            |          |
| 14  | Federal Taxable Income (L12 - L13)   | 93.0320%   |           |            |          |
| 15  | Applicable Federal Income Tax Rate (Line 53)   | 15.0000%   |           |            |          |
| 16  | Effective Federal Income Tax Rate (L14 x L15)  | 13.9548%   |           |            |          |
| 17  | Combined Federal and State Income Tax Rate (L13 + L16)   | 20.9228%   |           |            |          |
| <u>Calculation of Effective Property Tax Factor</u>   |  |            |           |            |          |
| 18  | Unity  | 100.0000%  |           |            |          |
| 19  | Combined Federal and State Tax Rate (Line 17)  | 20.9228%   |           |            |          |
| 20  | One Minus Combined Income Tax Rate (L18 - L19)   | 79.0772%   |           |            |          |
| 21  | Property Tax Factor (MJR-17, L24)  | 1.8618%    |           |            |          |
| 22  | Effective Property Tax Factor (L 21 * L 22)  | 1.4723%    |           |            |          |
| 23  | Combined Federal and State Tax and Property Tax Rate (L17+L22)                                       |            | 22.3951%  |            |          |
| 24  | Required Operating Income (Schedule MJR-1, Line 5)   | \$ 13,069  |           |            |          |
| 25  | Adjusted Test Year Operating Income (Loss) (Schedule MJR-11, Line 40)                                | \$ (3,363) |           |            |          |
| 26  | Required Increase in Operating Income (L24 - L25)  |            | \$ 16,432 |            |          |
| 27  | Income Taxes on Recommended Revenue (Col. (D), L52)  | \$ 3,458   |           |            |          |
| 28  | Income Taxes on Test Year Revenue (Col. (B), L52)  | \$ (890)   |           |            |          |
| 29  | Required Increase in Revenue to Provide for Income Taxes (L27 - L28)                                 |            | \$ 4,348  |            |          |
| 30  | Recommended Revenue Requirement (Schedule MJR-1, Line 10)  | \$ 441,810 |           |            |          |
| 31  | Uncollectible Rate (Line 10)   | 0.4600%    |           |            |          |
| 32  | Uncollectible Expense on Recommended Revenue (L24 * L25)   | \$ 2,032   |           |            |          |
| 33  | Adjusted Test Year Uncollectible Expense   | \$ 1,934   |           |            |          |
| 34  | Required Increase in Revenue to Provide for Uncollectible Exp. (L32 - L33)                           |            | \$ 98     |            |          |
| 35  | Property Tax with Recommended Revenue (MJR-17, L19)  | \$ 23,825  |           |            |          |
| 36  | Property Tax on Test Year Revenue (MJR-17, L 16)   | \$ 23,429  |           |            |          |
| 37  | Increase in Property Tax Due to Increase in Revenue (MJR-17, L22)                                    |            | \$ 396    |            |          |
| 38  | Total Required Increase in Revenue (L26 + L29 + L34+L37)   |            | \$ 21,274 |            |          |
| <u>Calculation of Income Tax</u>                      |  |            |           |            |          |
| 39  | Revenue (Schedule MJR-11, Col.(C), Line 5 & Sch. MJR-1, Col. (B), Line 10)                           | \$ 420,536 | \$ 21,274 | \$ 441,810 |          |
| 40  | Operating Expenses Excluding Income Taxes  | \$ 424,789 |           | \$ 425,283 |          |
| 41  | Synchronized Interest (L47)  | \$ -       |           | \$ -       |          |
| 42  | Arizona Taxable Income (L36 - L317- L38)   | \$ (4,253) |           | \$ 16,527  |          |
| 43  | Arizona State Income Tax Rate  | 6.9680%    |           | 6.9680%    |          |
| 44  | Arizona Income Tax (L39 x L40)   |            | \$ (296)  |            | \$ 1,152 |
| 45  | Federal Taxable Income (L42- L43)  | \$ (3,956) |           | \$ 15,375  |          |
| 46  | Federal Tax on First Income Bracket (\$1 - \$50,000) @ 15%   | \$ (593)   |           | \$ 2,306   |          |
| 47  | Federal Tax on Second Income Bracket (\$50,001 - \$75,000) @ 25%                                     | \$ -       |           | \$ -       |          |
| 48  | Federal Tax on Third Income Bracket (\$75,001 - \$100,000) @ 34%                                     | \$ -       |           | \$ -       |          |
| 49  | Federal Tax on Fourth Income Bracket (\$100,001 - \$335,000) @ 39%                                   | \$ -       |           | \$ -       |          |
| 50  | Federal Tax on Fifth Income Bracket (\$335,001 - \$10,000,000) @ 34%                                 | \$ -       |           | \$ -       |          |
| 51  | Total Federal Income Tax   |            | \$ (593)  |            | \$ 2,306 |
| 52  | Combined Federal and State Income Tax (L44 + L51)  |            | \$ (890)  |            | \$ 3,458 |
| 53  | Applicable Federal Income Tax Rate [Col. (D), L51 - Col. (B), L51] / [Col. (C), L45 - Col. (A), L45] |            |           |            | 15.0000% |
| <u>Calculation of Interest Synchronization</u>        |  |            |           |            |          |
| 54  | Rate Base (Schedule MJR-3, Col. (C), Line 17)  | \$ 145,210 |           |            |          |
| 55  | Weighted Average Cost of Debt  | 0.00%      |           |            |          |
| 56  | Synchronized Interest (L54 X L56)  | \$ -       |           |            |          |

CORDES LAKES WATER COMPANY  
Docket No. W-02060A-12-0356  
Test Year Ended December 31, 2011

Surrebuttal MJR-3

**RATE BASE - ORIGINAL COST**

| LINE<br>NO.  | (A)<br>COMPANY<br>AS<br>FILED               | (B)<br>STAFF<br>ADJUSTMENTS | REF                 | (C)<br>STAFF<br>AS<br>ADJUSTED |
|--------------|---|-----------------------------|---------------------|--------------------------------|
| 1            | Plant in Service                            | \$ 601,634                  | \$ 535,389          | \$ 1,137,023                   |
| 2            | Less: Accumulated Depreciation              | 139,712                     | 755,284             | 894,996                        |
| 3            | Net Plant in Service                        | <u>\$ 461,922</u>           | <u>\$ (219,895)</u> | <u>\$ 242,027</u>              |
| <u>LESS:</u> |   |                             |                     |                                |
| 4            | Contributions in Aid of Construction (CIAC) | \$ -                        | \$ 76,247           | \$ 76,247                      |
| 5            | Less: Accumulated Amortization              | -                           | 18,710              | 18,710                         |
| 6            | Net CIAC                                    | -                           | 57,537              | 57,537                         |
| 7            | Advances in Aid of Construction (AIAC)      | 21,110                      | -                   | 21,110                         |
| 8            | Customer Deposits                           | 18,170                      | -                   | 18,170                         |
| 9            | Deterred Income Tax Liabilites              | -                           | -                   | -                              |
| <u>ADD:</u>  |   |                             |                     |                                |
| 10           | Unamortized Finance Charges                 | -                           | -                   | -                              |
| 11           | Deferred Tax Assets                         | -                           | -                   | -                              |
| 12           | Working Capital                             | 74,147                      | (74,147)            | -                              |
| 17           | <b>Original Cost Rate Base</b>              | <u>\$ 496,789</u>           | <u>\$ (351,579)</u> | <u>\$ 145,210</u>              |

References:

Column (A), Company Schedule B-1,  
Column (B): Schedule MJR-4  
Column (C): Column (A) + Column (B)

SUMMARY OF ORIGINAL COST RATE BASE ADJUSTMENTS

| LINE NO.                 | ACCT. NO. | DESCRIPTION                                 | [A]<br>COMPANY<br>AS FILED | [B]<br>Rec & Res Land<br>ADJ #1<br>Ref. Sch MJR-5 | [C]<br>Used & Useful<br>ADJ #2<br>Ref. Sch MJR-6 | [D]<br>Net Plant Additions<br>ADJ #3<br>Ref. Sch MJR-7 | [E]<br>Acc Depr<br>ADJ #4<br>Ref. Sch MJR-8 | [F]<br>Recognize CIAC<br>ADJ #5<br>Ref. Sch MJR-9 | [G]<br>Working Capital<br>ADJ #6<br>Ref. Sch MJR-10 | [H]<br>STAFF<br>ADJUSTED |
|--------------------------|-----------|---|----------------------------|---|--|--|---|---|---|--------------------------|
| <b>PLANT IN SERVICE:</b> |           |   |                            |   |  |  |   |   |   |                          |
| 1                        | 301       | Organization                                | \$ -                       | \$ -  | \$ -   | \$ -   | \$ -  | \$ -  | \$ -  | -                        |
| 2                        | 302       | Franchises                                  | -                          | -   | -  | -  | -   | -   | -   | -                        |
| 3                        | 303       | Land and Land Rights                        | -                          | -   | -  | -  | -   | -   | -   | -                        |
| 4                        | 304       | Structures & Improvements                   | 35,665                     | (35,665)  | -  | -  | -   | -   | -   | -                        |
| 5                        | 305       | Collecting & Impounding Reservoirs          | 6,657                      | -   | -  | -  | -   | -   | -   | 6,657                    |
| 6                        | 306       | Lakes, Rivers, Other Intakes                | -                          | -   | -  | -  | -   | -   | -   | -                        |
| 7                        | 307       | Wells and Springs                           | 167,348                    | -   | -  | -  | -   | -   | -   | 167,348                  |
| 8                        | 308       | Infiltration Galleries and Tunnels          | -                          | -   | -  | -  | -   | -   | -   | -                        |
| 9                        | 309       | Supply Mains                                | -                          | -   | -  | -  | -   | -   | -   | -                        |
| 10                       | 310       | Power Generation Equipment                  | -                          | -   | -  | -  | -   | -   | -   | -                        |
| 11                       | 311       | Pumping Equipment                           | 26,588                     | -   | -  | -  | -   | -   | -   | 26,588                   |
| 12                       | 312       | Water Treatment Plant                       | -                          | -   | -  | -  | -   | -   | -   | -                        |
| 13                       | 313       | Distribution Reservoirs & Standpipes        | 141,632                    | -   | -  | -  | -   | -   | -   | 141,632                  |
| 14                       | 314       | Transmission & Distribution Mains           | 15,099                     | -   | -  | -  | -   | -   | -   | 15,099                   |
| 15                       | 315       | Services                                    | -                          | -   | 582,872  | 3,898  | -   | -   | -   | 581,937                  |
| 16                       | 316       | Meters & Meter Installation                 | 70,842                     | -   | 19,350   | (16,025)   | -   | -   | -   | 19,350                   |
| 17                       | 317       | Hydrants                                    | -                          | -   | -  | -  | -   | -   | -   | 54,817                   |
| 18                       | 318       | Backflow Prevention Devices                 | -                          | -   | -  | -  | -   | -   | -   | -                        |
| 19                       | 319       | Other Plant & Misc. Equipment               | 59,315                     | -   | -  | 1,235  | -   | -   | -   | 60,550                   |
| 20                       | 320       | Office Furniture & Equipment                | 7,027                      | -   | -  | (926)  | -   | -   | -   | 6,101                    |
| 21                       | 321       | Transportation Equipment                    | 71,461                     | -   | -  | -  | -   | -   | -   | 71,461                   |
| 22                       | 322       | Stores Equipment                            | -                          | -   | -  | -  | -   | -   | -   | -                        |
| 23                       | 323       | Tools, Shop & Garage Equipment              | -                          | -   | -  | -  | -   | -   | -   | -                        |
| 24                       | 324       | Laboratory Equipment                        | -                          | -   | -  | -  | -   | -   | -   | -                        |
| 25                       | 325       | Power Operated Equipment                    | -                          | -   | -  | -  | -   | -   | -   | -                        |
| 26                       | 326       | Communication Equipment                     | -                          | -   | -  | -  | -   | -   | -   | -                        |
| 27                       | 327       | Miscellaneous Equipment                     | -                          | -   | 582  | -  | -   | -   | -   | 582                      |
| 28                       | 328       | Other Tangible Plant                        | -                          | -   | -  | -  | -   | -   | -   | -                        |
| 29                       | 329       |   | -                          | -   | -  | -  | -   | -   | -   | -                        |
| 30                       | 330       |   | 601,634                    | (35,665)  | 582,872  | (11,818)   | -   | -   | -   | 1,137,023                |
| 31                       | 331       |   | -                          | -   | -  | -  | -   | -   | -   | -                        |
| 32                       | 332       | Add:  | -                          | -   | -  | -  | -   | -   | -   | -                        |
| 33                       | 333       | Post Test Year Plant                        | -                          | -   | -  | -  | -   | -   | -   | -                        |
| 34                       | 334       | General Office Plant Allocation             | -                          | -   | -  | -  | -   | -   | -   | -                        |
| 35                       | 335       | Less:                                       | -                          | -   | -  | -  | -   | -   | -   | -                        |
| 36                       | 336       |   | -                          | -   | -  | -  | -   | -   | -   | -                        |
| 37                       | 337       |   | -                          | -   | -  | -  | -   | -   | -   | -                        |
| 38                       | 338       |   | -                          | -   | -  | -  | -   | -   | -   | -                        |
| 39                       | 339       | Total Plant In Service                      | \$ 601,634                 | \$ (35,665)                                       | \$ 582,872                                       | \$ (11,818)  | \$ 755,284                                  | \$ -  | \$ -  | \$ 1,137,023             |
| 40                       | 340       | Less: Accumulated Depreciation              | 139,712                    | -   | -  | -  | -   | -   | -   | 894,998                  |
| 41                       | 341       |   | \$ 461,922                 | \$ (35,665)                                       | \$ 582,872                                       | \$ (11,818)  | \$ (755,284)                                | \$ -  | \$ -  | \$ 242,027               |
| 42                       | 342       | Net Plant In Service (L59 - L 60)           | -                          | -   | -  | -  | -   | -   | -   | -                        |
| 43                       | 343       | LESS:                                       | -                          | -   | -  | -  | -   | -   | -   | -                        |
| 44                       | 344       | Contributions in Aid of Construction (CIAC) | -                          | -   | -  | -  | -   | -   | -   | -                        |
| 45                       | 345       | Less: Accumulated Amortization              | -                          | -   | -  | -  | -   | -   | -   | -                        |
| 46                       | 346       | Net CIAC (L25 - L26)                        | -                          | -   | -  | -  | -   | -   | -   | -                        |
| 47                       | 347       | Advances in Aid of Construction (AIAC)      | 21,110                     | -   | -  | -  | -   | -   | -   | 76,247                   |
| 48                       | 348       | Customer Deposits                           | 18,170                     | -   | -  | -  | -   | -   | -   | 18,170                   |
| 49                       | 349       | Deferred Tax Liabilities                    | -                          | -   | -  | -  | -   | -   | -   | -                        |
| 50                       | 350       |   | -                          | -   | -  | -  | -   | -   | -   | -                        |
| 51                       | 351       |   | -                          | -   | -  | -  | -   | -   | -   | -                        |
| 52                       | 352       | ADD:  | -                          | -   | -  | -  | -   | -   | -   | -                        |
| 53                       | 353       | Unamortized Finance Charges                 | -                          | -   | -  | -  | -   | -   | -   | -                        |
| 54                       | 354       | Deferred Tax Assets                         | -                          | -   | -  | -  | -   | -   | -   | -                        |
| 55                       | 355       | Working Capital                             | 74,147                     | -   | -  | -  | -   | -   | (74,147)  | -                        |
| 56                       | 356       |   | -                          | -   | -  | -  | -   | -   | -   | -                        |
| 57                       | 357       | Original Cost Rate Base                     | \$ 496,789                 | \$ (35,665)                                       | \$ 582,872                                       | \$ (11,818)  | \$ (755,284)                                | \$ (57,537)                                       | \$ (74,147)   | \$ 145,210               |



CORDES LAKES WATER COMPANY  
Docket No. W-02060A-12-0356  
Test Year Ended December 31, 2011

Surrebuttal MJR - 5

RATE BASE ADJUSTMENT #1 - REMOVE NON-USED AND USEFUL LAND

| Line<br>No. | DESCRIPTION | [A]<br>COMPANY<br>PROPOSED | [B]<br>STAFF<br>ADJUSTMENTS | [C]<br>STAFF<br>RECOMMENDED |
|-------------|-------------|----------------------------|-----------------------------|-----------------------------|
| 1           | Land        | \$ 35,665                  | \$ (35,665)                 | \$ -                        |

References:

Col [A]: Company Schedule B-1  
Col [B]: Col [C] - Col [A]  
Col [C]: MJR Testimony

CORDES LAKES WATER COMPANY  
Docket No. W-02060A-12-0356  
Test Year Ended December 31, 2011

Surrebuttal MJR-6

RATE BASE ADJUSTMENT #2 REINSTATE USED AND USEFULL PLANT

| LINE<br>NO. | ACCT<br>NO. | DESCRIPTION                       | [A]<br>COMPANY<br>2006 Balance<br>AS<br>FILED | [B]<br>Decision No.<br>70170<br>STAFF<br>ADJUSTMENTS | [C]<br>STAFF<br>RECOMMENDED |
|-------------|-------------|-----------------------------------|---|--|-----------------------------|
|             |             |                                   |   |  |                             |
| 1           | 311         | Pumping Equipment                 | \$ 10,558                                     | \$ -   | \$ 10,558                   |
| 2           | 331         | Transmission & Distribution Mains | 9,444   | 562,940  | 572,384                     |
| 3           | 333         | Services                          | -   | 19,350   | 19,350                      |
| 4           | 347         | Miscellaneous Equipment           | -   | 582  | 582                         |
| 5           |             | Totals                            | <u>\$ 20,002</u>                              | <u>\$ 582,872</u>                                    | <u>\$ 602,874</u>           |

[A]: Company Schedule E-5 and Detail 11/8/2012

[B]: Col [C] - Col [A]

[C]:MJR Testimony

CORDES LAKES WATER COMPANY  
Docket No. W-02060A-12-0356  
Test Year Ended December 31, 2011

Surrebuttal MJR-7

**RATE BASE ADJUSTMENT #3 NET PLANT ADDITIONS**

| LINE<br>NO. | ACCT<br>NO. | DESCRIPTION                       | [A]<br>COMPANY<br>Additions<br>11/8/2012 | [B]<br>STAFF<br>ADJUSTMENTS | [C]<br>STAFF<br>RECOMMENDED |
|-------------|-------------|-----------------------------------|--|-----------------------------|-----------------------------|
|             |             |                                   |  |                             |                             |
| 1           | 331         | Transmission & Distribution Mains | \$ 5,655                                 | \$ 3,898                    | \$ 9,553                    |
| 2           | 334         | Meters & Meter Installation       | 35,253                                   | (16,025)                    | 19,228                      |
| 3           | 339         | Other Plant & Misc. Equipment     | 5,166                                    | 1,235                       | 6,401                       |
| 4           | 340         | Office Furniture & Equipment      | 2,537                                    | (926)                       | 1,611                       |
| 5           |             | Totals                            | <u>\$ 48,611</u>                         | <u>\$ (11,818)</u>          | <u>\$ 36,793</u>            |

[A]: Company Schedule E-5 and Detail provided 11/8/2012

[B]: Col [C] - Col [A]

[C]: MJR Testimony

CORDES LAKES WATER COMPANY  
Docket No. W-02060A-12-0356  
Test Year Ended December 31, 2011

Surrebuttal MJR-8

**RATE BASE ADJUSTMENT #4 - ACCUMULATED DEPRECIATION**

| LINE<br>NO. | DESCRIPTION              | [A]<br>COMPANY<br>PROPOSED | [B]<br>STAFF<br>ADJUSTMENTS | [C]<br>STAFF<br>RECOMMENDED |
|-------------|--------------------------|----------------------------|-----------------------------|-----------------------------|
| 1           | Accumulated Depreciation | <u>\$ 139,712</u>          | <u>\$ 755,284</u>           | <u>\$ 894,996</u>           |

References:

Col [A]: Company Schedule B-1  
Col [B]: Col [C] - Col [A]  
Col [C]: MJR Testimony

CORDES LAKES WATER COMPANY  
Docket No. W-02060A-12-0356  
Test Year Ended December 31, 2011

Surrebuttal MJR-9

**RATE BASE ADJUSTMENT #5 - CIAC AND ACCUMULATED AMORTIZATION OF CIAC**

| LINE<br>NO. | DESCRIPTION                          | [A]<br>COMPANY<br>PROPOSED | [B]<br>STAFF<br>ADJUSTMENTS | [C]<br>STAFF<br>RECOMMENDED |
|-------------|--------------------------------------|----------------------------|-----------------------------|-----------------------------|
| 1           | Contributions in aid of construction | \$ -                       | \$ 76,247                   | \$ 76,247                   |
| 2           | Accumulated Amortization of CIAC     | \$ -                       | \$ 18,710                   | \$ 18,710                   |

References:

Col [A]: Company Schedule B-1

Col [B]: Col [C] - Col [A]

Col [C]: Decision 70170

CORDES LAKES WATER COMPANY  
Docket No. W-02060A-12-0356  
Test Year Ended December 31, 2011

Surrebuttal MJR-10

**RATE BASE ADJUSTMENT #6 - WORKING CAPITAL ALLOWANCE**

| LINE<br>NO. | DESCRIPTION               | [A]<br>COMPANY<br>PROPOSED | [B]<br>STAFF<br>ADJUSTMENTS | [C]<br>STAFF<br>RECOMMENDED |
|-------------|---------------------------|----------------------------|-----------------------------|-----------------------------|
| 1           | Working Capital Allowance | \$ 74,147                  | \$ (74,147)                 | \$ -                        |

References:

Col [A]: Company Schedule B-1

Col [B]: Col [C] - Col [A]

Col [C]: MJR Testimony

OPERATING INCOME STATEMENT - ADJUSTED TEST YEAR AND STAFF RECOMMENDED

Surrebuttal MJR-11

| LINE NO. | DESCRIPTION                                   | [A]<br>COMPANY<br>ADJUSTED<br>TEST YEAR<br>AS FILED | [B]<br>STAFF<br>TEST YEAR<br>ADJUSTMENTS | [C]<br>STAFF<br>TEST YEAR<br>AS<br>ADJUSTED | [D]<br>STAFF<br>PROPOSED<br>CHANGES | [E]<br>STAFF<br>RECOMMENDED |
|----------|---|---|--|---|-------------------------------------|-----------------------------|
| 1        | <u>REVENUES:</u>                              |   |  |   |                                     |                             |
| 2        | Metered Water Sales                           | \$ 403,353  | \$ 9,093                                 | \$ 412,446                                  | \$ 21,274                           | \$ 433,720                  |
| 3        | Received for Contract Labor                   | 167,692   | (167,692)                                | -   | -                                   | -                           |
| 4        | Miscellaneous Revenue                         | 640   | 7,450                                    | 8,090                                       | -                                   | 8,090                       |
| 5        | <b>Total Operating Revenues</b>               | <b>\$ 571,685</b>                                   | <b>\$ (151,149)</b>                      | <b>\$ 420,536</b>                           | <b>\$ 21,274</b>                    | <b>\$ 441,810</b>           |
| 6        | <u>OPERATING EXPENSES:</u>                    |   |  |   |                                     |                             |
| 7        | Payroll                                       | \$ 309,095  | \$ (167,692)                             | \$ 141,403                                  | \$ -                                | \$ 141,403                  |
| 10       | Contract Labor                                | 10,312  | -  | 10,312                                      | -                                   | 10,312                      |
| 11       | Employee Benefits                             | 29,422  | -  | 29,422                                      | -                                   | 29,422                      |
| 13       | Purchased Power                               | 31,723  | -  | 31,723                                      | -                                   | 31,723                      |
| 14       | Repairs and Maintenance                       | 12,650  | 1,012                                    | 13,662                                      | -                                   | 13,662                      |
| 15       | Office Supplies and Expense                   | 14,491  | -  | 14,491                                      | -                                   | 14,491                      |
| 16       | Outside Services - Accounting                 | 3,660   | 6,340                                    | 10,000                                      | -                                   | 10,000                      |
| 17       | Outside Services - Billing Services           | 24,118  | -  | 24,118                                      | -                                   | 24,118                      |
| 18       | Outside Services - Computer Programming       | 3,511   | -  | 3,511                                       | -                                   | 3,511                       |
| 19       | Water Testing                                 | 1,806   | 4,052                                    | 5,858                                       | -                                   | 5,858                       |
| 20       | Rents   | 28,150  | -  | 28,150                                      | -                                   | 28,150                      |
| 21       | Transportation Expenses                       | 8,995   | -  | 8,995                                       | -                                   | 8,995                       |
| 22       | Insurance - General Liability                 | 33,033  | -  | 33,033                                      | -                                   | 33,033                      |
| 23       | Insurance - Health and Life                   | 14,936  | -  | 14,936                                      | -                                   | 14,936                      |
| 24       | Rate Case Expense                             | -   | 6,000                                    | 6,000                                       | -                                   | 6,000                       |
| 25       | Regulatory Expense                            | -   | -  | -   | -                                   | -                           |
| 26       | Misc Expense - Permits                        | 2,000   | -  | 2,000                                       | -                                   | 2,000                       |
| 27       | Misc Expense - Travel                         | -   | -  | -   | -                                   | -                           |
| 28       | Misc. Expenses - Utilities except Electricity | 3,391   | -  | 3,391                                       | -                                   | 3,391                       |
| 29       | Misc. Expenses - Bank Charges                 | 1,304   | 1,934                                    | 3,238                                       | 98                                  | 3,336                       |
| 30       | Misc. Expenses - Payroll Services             | 859   | -  | 859   | -                                   | 859                         |
| 31       | Depreciation Expense                          | 37,195  | (22,162)                                 | 15,033                                      | -                                   | 15,033                      |
| 32       | Payroll Taxes                                 | 175   | -  | 175   | -                                   | 175                         |
| 33       | Taxes other than Income (Sales Tax)           | -   | -  | -   | -                                   | -                           |
| 34       | Property Taxes                                | 18,187  | 5,242                                    | 23,429                                      | 396                                 | 23,825                      |
| 35       | Income Tax                                    | 45  | (935)                                    | (890)                                       | 4,348                               | 3,458                       |
| 36       | Interest Income                               | -   | -  | -   | -                                   | -                           |
| 37       | Interest Expense                              | -   | 1,050                                    | 1,050                                       | -                                   | 1,050                       |
| 38       |   |   |  |   |                                     |                             |
| 39       | <b>Total Operating Expenses</b>               | <b>\$ 589,058</b>                                   | <b>\$ (165,159)</b>                      | <b>\$ 423,899</b>                           | <b>\$ 4,842</b>                     | <b>\$ 428,741</b>           |
| 40       | <b>Operating Income (Loss)</b>                | <b>\$ (17,373)</b>                                  | <b>\$ 14,010</b>                         | <b>\$ (3,363)</b>                           | <b>\$ 16,432</b>                    | <b>\$ 13,069</b>            |

References:

Column (A): Company Revised Schedule E-2, 11/8/2012  
Column (B): Schedule Surrebuttal MJR-12  
Column (C): Column (A) + Column (B)  
Column (D): Surrebuttal Schedules MJR-1 and MJR-2  
Column (E): Column (C) + Column (D)

CORDES LAKES WATER COMPANY

Docket No. W-0000A-12-0350

Rate Year Ending December 31, 2011

Supplemental M.J.R. 12

SUMMARY OF OPERATING INCOME STATEMENT ADJUSTMENTS - TEST YEAR

| LINE NO. | DESCRIPTION                                   | (A) COMPANY AS FILED 9/24/2012 | (B) Contract Labor ADJ #1 Ref. Sch M.J.R.-13 | (C) Repairs & Maint ADJ #2 Ref. Sch M.J.R.-14 | (D) Metered Rev ADJ #3 Ref. Sch M.J.R.-15 | (E) Dep. Exp. ADJ #4 Ref. Sch M.J.R.-16 | (F) Prop. Tax ADJ #5 Ref. Sch M.J.R.-17 | (G) Inc. Tax ADJ #6 Ref. Sch M.J.R.-18 | (H) Water Testing ADJ #7 Ref. Sch M.J.R.-19 | (I) Un-metered Rev ADJ #8 Ref. Sch M.J.R.-20 | (J) Customer Dep ADJ #9 Ref. Sch M.J.R.-21 | (K) Rate Case Expense ADJ #10 Ref. Sch M.J.R.-22 | (L) Outside Accts Svcs ADJ #11 Ref. Sch M.J.R.-23 | (M) Bad Debt ADJ #12 Ref. Sch M.J.R.-24 | (N) STAFF ADJUSTED |
|----------|---|--------------------------------|--|---|---|---|---|--|---|--|--|--|---|---|--------------------|
| 1        | REVENUES:                                     |                                |  |   |   |   |   |  |   |  |  |  |   |   |                    |
| 2        | Watered Revenue                               | \$ 403,353                     |  |   |   |   |   |  |   |  |  |  |   |   |                    |
| 3        | Unmetered Revenue                             | \$ 187,692                     |  |   |   |   |   |  |   |  |  |  |   |   |                    |
| 4        | Other Water Revenue                           | \$ 640                         |  |   |   |   |   |  |   |  |  |  |   |   |                    |
| 5        | Total Operating Revenues                      | \$ 591,685                     | \$ (187,692)                                 | \$ -  | \$ 9,093                                  | \$ -                                    | \$ -                                    | \$ -                                   | \$ -  | \$ 7,450                                     | \$ -                                       | \$ -   | \$ -  | \$ -                                    | \$ 412,446         |
| 6        | OPERATING EXPENSES:                           |                                |  |   |   |   |   |  |   |  |  |  |   |   |                    |
| 7        | Contract Labor                                | \$ 309,095                     | \$ (187,692)                                 | \$ -  | \$ -                                      | \$ -                                    | \$ -                                    | \$ -                                   | \$ -  | \$ -   | \$ -                                       | \$ -   | \$ -  | \$ -                                    | \$ 141,403         |
| 8        | Employee Benefits                             | 29,422                         |  |   |   |   |   |  |   |  |  |  |   |   | 10,312             |
| 9        | Purchased Power                               | 31,723                         |  |   |   |   |   |  |   |  |  |  |   |   | 29,422             |
| 10       | Results and Maintenance                       | 12,690                         |  |   |   |   |   |  |   |  |  |  |   |   | 31,723             |
| 11       | Misc. Expenses - Utilities                    | 14,938                         |  | 1,012   |   |   |   |  |   |  |  |  |   |   | 13,926             |
| 12       | Office Supplies and Expenses                  | 3,660                          |  |   |   |   |   |  |   |  |  |  |   |   | 4,672              |
| 13       | Outside Services - Billing Services           | 24,118                         |  |   |   |   |   |  |   |  |  |  | 6,340   |   | 10,000             |
| 14       | Outside Services - Billing Services           | 3,511                          |  |   |   |   |   |  |   |  |  |  |   |   | 24,118             |
| 15       | Water Testing                                 | 1,098                          |  |   |   |   |   |  |   |  |  |  |   |   | 3,511              |
| 16       | Permits                                       | 28,655                         |  |   |   |   |   |  |   |  |  |  |   |   | 5,858              |
| 17       | Medical Insurance                             | 33,033                         |  |   |   |   |   |  | 4,052                                       |  |  |  |   |   | 28,981             |
| 18       | Liability Insurance                           | 14,836                         |  |   |   |   |   |  |   |  |  |  |   |   | 8,885              |
| 19       | Rate Case Expense                             | -                              |  |   |   |   |   |  |   |  |  | 8,000  |   |   | 33,033             |
| 20       | Rate Case Expense                             | -                              |  |   |   |   |   |  |   |  |  |  |   |   | 14,938             |
| 21       | Rate Case Expense                             | -                              |  |   |   |   |   |  |   |  |  |  |   |   | 6,000              |
| 22       | Rate Case Expense                             | -                              |  |   |   |   |   |  |   |  |  |  |   |   | 2,000              |
| 23       | Misc. Expenses - Travel                       | 2,000                          |  |   |   |   |   |  |   |  |  |  |   |   | 3,391              |
| 24       | Misc. Expenses - Utilities second Electricity | 3,391                          |  |   |   |   |   |  |   |  |  |  |   |   | 3,238              |
| 25       | Misc. Expenses - Bank Charges                 | 1,304                          |  |   |   |   |   |  |   |  |  |  |   | 1,934                                   | 3,391              |
| 26       | Misc. Expenses - Payroll Services             | 659                            |  |   |   |   |   |  |   |  |  |  |   |   | 3,238              |
| 27       | Depreciation Expense                          | 31,155                         |  |   |   |   |   |  |   |  |  |  |   |   | 15,033             |
| 28       | Provision for Bad Debt                        | 175                            |  |   |   |   |   |  |   |  |  |  |   |   | 15,033             |
| 29       | Provision for Bad Debt                        | -                              |  |   |   |   |   |  |   |  |  |  |   |   | 175                |
| 30       | Taxes other than Income (Sales Tax)           | 18,167                         |  |   |   |   | 5,242                                   | (935)                                  |   |  |  |  |   |   | 23,429             |
| 31       | Property Taxes                                | -                              |  |   |   |   |   |  |   |  |  |  |   |   | 18,167             |
| 32       | Income Tax                                    | 45                             |  |   |   |   |   |  |   |  |  |  |   |   | 18,167             |
| 33       | Interest Income                               | -                              |  |   |   |   |   |  |   |  |  |  |   |   | 45                 |
| 34       | Interest Expense                              | -                              |  |   |   |   |   |  |   |  |  |  |   |   | -                  |
| 35       | Total Operating Expenses                      | \$ 589,059                     | \$ (187,692)                                 | \$ 1,012                                      | \$ 9,093                                  | \$ (22,162)                             | \$ 5,242                                | \$ (935)                               | \$ 4,052                                    | \$ 7,450                                     | \$ 1,050                                   | \$ 8,000   | \$ 6,340  | \$ 1,934                                | \$ 425,899         |
| 36       | Operating Income (Loss)                       | \$ (17,373)                    | \$ -   | \$ (1,012)                                    | \$ -                                      | \$ 22,162                               | \$ (6,242)                              | \$ 835                                 | \$ (4,052)                                  | \$ -   | \$ -                                       | \$ (6,000)                                       | \$ -  | \$ (1,934)                              | \$ (3,953)         |

References:

Column (A): Company Revised Schedule E-2, 11/5/2012



CORDES LAKES WATER COMPANY  
Docket No. W-02060A-12-0356  
Test Year Ended December 31, 2011

Surrebuttal MJR-13

OPERATING INCOME ADJUSTMENT #1 - REMOVE NON-UTILITY REVENUES AND EXPENSES FOR CONTRACT LABOR

| LINE<br>NO. | DESCRIPTION             | [A]<br>COMPANY<br>PROPOSED | [B]<br>STAFF<br>ADJUSTMENTS | [C]<br>STAFF<br>RECOMMENDED |
|-------------|-------------------------|----------------------------|-----------------------------|-----------------------------|
| 1           | Contract Labor Revenue  | \$ 167,692                 | \$ (167,692)                | \$ -                        |
| 2           | Payroll                 | \$ 167,692                 | (167,692)                   | \$ -                        |
| 3           | Operating Income Affect | \$ -                       | \$ -                        | \$ -                        |

References:

Col [A]: Company Schedule E-2  
Col [B]: Col [C] - Col [A]  
Col [C]: MJR Testimony

CORDES LAKES WATER COMPANY  
Docket No. W-02060A-12-0356  
Test Year Ended December 31, 2011

Surrebuttal MJR-14

OPERATING INCOME ADJUSTMENT #2 - NORMALIZATION OF REPAIRS & MAINTENANCE EXPENSES

| LINE<br>NO. | DESCRIPTION                                       | [A]<br>COMPANY<br>PROPOSED | [B]<br>STAFF<br>ADJUSTMENTS | [C]<br>STAFF<br>RECOMMENDED |
|-------------|---|----------------------------|-----------------------------|-----------------------------|
| 1           | <u>Repairs &amp; Maintenance</u>                  | <u>\$ 12,650</u>           | <u>\$ 1,012</u>             | <u>\$ 13,662</u>            |
| 2           | Repairs & Maintenance - Company's Test Year: 2011 |                            |                             | \$ 12,650                   |
| 3           | Repairs & Maintenance - 2010 Annual Stmt          |                            |                             | 17,221                      |
| 4           | Repairs & Maintenance - 2009 Annual Stmt          |                            |                             | 11,116                      |
| 5           | Repairs & Maintenance expenses, past three years  |                            |                             | <u>\$ 40,987</u>            |
| 6           | Average Repair & Maintenance expense (line 5/3)   |                            |                             | <u>\$ 13,662</u>            |

References:

Col [A]: Company Schedule C-1

Col [B]: Col [C] - Col [A]

Col [C]: Normalized Repairs & Maintenance Expense Col [C] L6.

CORDES LAKES WATER COMPANY  
Docket No. W-02060A-12-0356  
Test Year Ended December 31, 2011

Surrebuttal MJR-15

OPERATING INCOME ADJUSTMENT #3 - METERED REVENUE

| LINE<br>NO. | DESCRIPTION     | [A]<br>COMPANY<br>PROPOSED | [B]<br>STAFF<br>ADJUSTMENTS | [C]<br>STAFF<br>RECOMMENDED |
|-------------|-----------------|----------------------------|-----------------------------|-----------------------------|
| 1           | Metered Revenue | \$ 403,353                 | \$ 9,093                    | \$ 412,446                  |

References:

Col [A]: Company Schedule E-2 Revised 9/24/2012

Col [B]: Col [C] - Col [A]

Col [C]: MJR Testimony

Bill Count Revenue

|                |                   |
|----------------|-------------------|
| 3/4 inch Meter | \$ 404,597        |
| 1 inch Meter   | 2,397             |
| 2 inch Meter   | 5,452             |
| Subtotal       | <u>\$ 412,446</u> |

OPERATING INCOME ADJUSTMENT #4 - DEPRECIATION EXPENSE

| Line No.                | ACCT NO. | DESCRIPTION  | [A]<br>AMOUNT | Depreciable Amount | [B]<br>Projected RATE | [C]<br>EXPENSE |
|-------------------------|----------|--|---------------|--------------------|-----------------------|----------------|
| <b>Plant in Service</b> |          |  |               |                    |                       |                |
| 1                       | 301      | Organization   | \$ -          | \$ -               | 0.00%                 | \$ -           |
| 2                       | 302      | Franchises   | -             | -                  | 0.00%                 | -              |
| 3                       | 303      | Land and Land Rights   | -             | -                  | 0.00%                 | -              |
| 4                       | 304      | Structures & Improvements  | 6,657         | 4,400              | 3.33%                 | 147            |
| 5                       | 305      | Collecting & Impounding Reservoirs   | -             | -                  | 2.50%                 | -              |
| 6                       | 306      | Lakes, Rivers, Other Intakes   | -             | -                  | 2.50%                 | -              |
| 7                       | 307      | Wells and Springs  | 167,348       | 151,979            | 3.33%                 | 5,061          |
| 8                       | 308      | Infiltration Galleries and Tunnels   | -             | -                  | 6.67%                 | -              |
| 9                       | 309      | Supply Mains   | -             | -                  | 2.00%                 | -              |
| 10                      | 310      | Power Generation Equipment   | -             | -                  | 5.00%                 | -              |
| 11                      | 311      | Pumping Equipment  | 26,588        | 16,030             | 12.50%                | 2,004          |
| 12                      | 320      | Water Treatment Plant  | -             | -                  | 3.33%                 | -              |
| 13                      | 330      | Distribution Reservoirs & Standpipes   | 141,632       | 94,458             | 2.22%                 | 2,097          |
| 14                      | 331      | Transmission & Distribution Mains  | 581,937       | 19,442             | 2.00%                 | 389            |
| 15                      | 333      | Services   | 19,350        | -                  | 3.33%                 | -              |
| 16                      | 334      | Meters & Meter Installation  | 54,817        | 47,078             | 8.33%                 | 3,922          |
| 17                      | 335      | Hydrants   | -             | -                  | 2.00%                 | -              |
| 18                      | 336      | Backflow Prevention Devices  | -             | -                  | 6.67%                 | -              |
| 19                      | 339      | Other Plant & Misc. Equipment  | 60,550        | 60,550             | 6.67%                 | 4,039          |
| 20                      | 340      | Office Furniture & Equipment   | 6,101         | 6,101              | 6.67%                 | 407            |
| 21                      | 341      | Transportation Equipment   | 71,461        | 2,412              | 20.00%                | 482            |
| 22                      | 342      | Stores Equipment   | -             | -                  | 4.00%                 | -              |
| 23                      | 343      | Tools, Shop & Garage Equipment   | -             | -                  | 5.00%                 | -              |
| 24                      | 344      | Laboratory Equipment   | -             | -                  | 10.00%                | -              |
| 25                      | 345      | Power Operated Equipment   | -             | -                  | 5.00%                 | -              |
| 26                      | 346      | Communication Equipment  | -             | -                  | 10.00%                | -              |
| 27                      | 347      | Miscellaneous Equipment  | 582           | -                  | 10.00%                | -              |
| 28                      | 348      | Other Tangible Plant   | -             | -                  | 0.00%                 | -              |
| 29                      |          | Subtotal General   | \$ 1,137,023  | \$ 402,450         |                       | \$ 18,547      |
| 30                      |          | Less: Non- depreciable Account(s) (L3)   | -             | -                  |                       | -              |
| 31                      |          | Depreciable Plant (L29-L30)  | \$ 1,137,023  | \$ 402,450         |                       |                |
| 32                      |          | Contributions-in-Aid-of-Construction (CIAC) Per Decision No. 54526 (1/28/1985) - Not Amortized | \$ 76,247     |                    |                       |                |
| 33                      |          | Composite Depreciation/Amortization Rate   | 4.61%         |                    |                       |                |
| 34                      |          | Less: Amortization of CIAC (L32 x L33)   |               |                    |                       | \$ 3,514       |
| 35                      |          | Depreciation Expense - STAFF [Col. (C), L29 - L34]   |               |                    |                       | \$ 15,033      |

| LINE NO. | DESCRIPTION          | [A]<br>COMPANY PROPOSED | [B]<br>STAFF ADJUSTMENT | [C]<br>STAFF RECOMMENDED |
|----------|----------------------|-------------------------|-------------------------|--------------------------|
| 36       | Depreciation Expense | \$ 37,195               | \$ (22,162)             | \$ 15,033                |

References:

Col [A]: MJR-4

Col [B]: Decision No. 70170 and updated Plant Schedules

Col [C]: MJR Testimony

CORDES LAKES WATER COMPANY  
Docket No. W-02060A-12-0356  
Test Year Ended December 31, 2011

Surrebuttal MJR-17

OPERATING INCOME ADJUSTMENT #5 - PROPERTY TAXES

| LINE<br>NO. | Property Tax Calculation  | (C)                  |                      |
|-------------|---|----------------------|----------------------|
|             |   | STAFF<br>AS ADJUSTED | STAFF<br>RECOMMENDED |
| 1           | Staff Adjusted Test Year Revenues - 2011                                  | \$ 420,536           | \$ 420,536           |
| 2           | Weight Factor   | 2                    | 2                    |
| 3           | Subtotal (Line 1 * Line 2)  | 841,073              | \$ 841,073           |
| 4           | Staff Recommended Revenue, Per Schedule MJR-1                             | 420,536              | \$ 441,810           |
| 5           | Subtotal (Line 4 + Line 5)  | 1,261,609            | 1,282,882            |
| 6           | Number of Years   | 3                    | 3                    |
| 7           | Three Year Average (Line 5 / Line 6)                                      | 420,536              | 427,627              |
| 8           | Department of Revenue Multiplier  | 2                    | 2                    |
| 9           | Revenue Base Value (Line 7 * Line 8)                                      | 841,073              | 855,255              |
| 10          | Plus: 10% of CWIP -   | -                    | -                    |
| 11          | Less: Net Book Value of Licensed Vehicles                                 | 2,171                | 2,171                |
| 12          | Full Cash Value (Line 9 + Line 10 - Line 11)                              | 838,902              | \$ 853,084           |
| 13          | Assessment Ratio  | 20.0%                | 20.0%                |
| 14          | Assessment Value (Line 12 * Line 13)                                      | 167,780              | \$ 170,617           |
| 15          | Composite Property Tax Rate   | 13.9638%             | 13.9638%             |
| 16          | Staff Test Year Adjusted Property Tax (Line 14 * Line 15)                 | \$ 23,429            | \$ -                 |
| 17          | Company Proposed Property Tax   | 18,187               |                      |
| 18          | Staff Test Year Adjustment (Line 16-Line 17)                              | \$ 5,242             |                      |
| 19          | Property Tax - Staff Recommended Revenue (Line 14 * Line 15)              |                      | \$ 23,825            |
| 20          | Staff Test Year Adjusted Property Tax Expense (Line 16)                   |                      | \$ 23,429            |
| 21          | Increase in Property Tax Expense Due to Increase in Revenue Requirement   |                      | \$ 396               |
| 22          | Increase to Property Tax Expense  |                      | \$ 396               |
| 23          | Increase in Revenue Requirement   |                      | 21,274               |
| 24          | Increase to Property Tax per Dollar Increase in Revenue (Line 22/Line 23) |                      | 1.861840%            |

CORDES LAKES WATER COMPANY  
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Test Year Ended December 31, 2011

Surrebuttal MJR-18

OPERATING INCOME ADJUSTMENT #6 - TEST YEAR INCOME TAXES

| LINE<br>NO. | DESCRIPTION        | [A]<br>COMPANY<br>PROPOSED | [B]<br>STAFF<br>ADJUSTMENTS | [C]<br>STAFF<br>RECOMMENDED |
|-------------|--------------------|----------------------------|-----------------------------|-----------------------------|
| 1           | Income Tax Expense | \$ 45                      | \$ (935)                    | \$ (890)                    |

References:

Col [A]: Company Schedule E-2 Revised 9/24/2012

Col [B]: Col [C] - Col [A]

Col [C]: Schedule MJR-2, Line 43

CORDES LAKES WATER COMPANY  
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Test Year Ended December 31, 2011

Surrebuttal MJR-19

OPERATING INCOME ADJUSTMENT #7 WATER TESTING

| LINE<br>NO. | DESCRIPTION           | [A]<br>COMPANY<br>PROPOSED | [B]<br>STAFF<br>ADJUSTMENTS | [C]<br>STAFF<br>RECOMMENDED |
|-------------|-----------------------|----------------------------|-----------------------------|-----------------------------|
| 1           | Water Testing Expense | \$ 1,806                   | \$ 4,052                    | \$ 5,858                    |

References:

Col [A]: Company Schedule E-2

Col [B]: Col [C] - Col [A]

Col [C]: Engineering Report

CORDES LAKES WATER COMPANY  
Docket No. W-02060A-12-0356  
Test Year Ended December 31, 2011

Surebuttal MJR-20

**OPERATING INCOME ADJUSTMENT #8 - NON-METERED REVENUE FEES**

| LINE       |                          | [A]<br>COMPANY<br>PROPOSED<br>9/24/2012 | [B]<br>STAFF<br>ADJUSTMENTS | [C]<br>STAFF<br>RECOMMENDED |
|------------|--------------------------|---|-----------------------------|-----------------------------|
| <u>NO.</u> | <u>DESCRIPTION</u>       |   |                             |                             |
| 1          | Misc Income Net          | \$ 640                                  | \$ (640)                    | \$ -                        |
| 2          | Establishment            | -                                       | \$ 6,825                    | 6,825                       |
| 3          | Reconnection             | -                                       | \$ 1,045                    | 1,045                       |
| 4          | After Hours Reconnection | -                                       | \$ 150                      | 150                         |
| 5          | Re-Establishment         | -                                       | \$ 70                       | 70                          |
| 6          |                          | \$ 640                                  | \$ 7,450                    | \$ 8,090                    |

|                          |                                 |
|--------------------------|---------------------------------|
|                          | COMPANY<br>Revised<br>8/17/2012 |
| Misc Income Net          | \$ -                            |
| Establishment            | 6,825                           |
| Reconnection             | 1,045                           |
| After Hours Reconnection | 150                             |
| Re-Establishment         | 70                              |

References:

Col [A]: Company Schedule A-2 (B)  
Col [B]: Col [C] - Col [A]  
Col [C]: Schedule Column A plus Column B



CORDES LAKES WATER COMPANY  
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Test Year Ended December 31, 2011

Surrebuttal MJR-21

OPERATING INCOME ADJUSTMENT #9 - INTEREST ON CUSTOMER DEPOSITS

| LINE |                               | [A]                 | [B]                  | [C]                  |
|------|-------------------------------|---------------------|----------------------|----------------------|
| NO.  | DESCRIPTION                   | COMPANY<br>PROPOSED | STAFF<br>ADJUSTMENTS | STAFF<br>RECOMMENDED |
| 1    | Interest on Customer Deposits | <u>\$ -</u>         | <u>\$ 1,050</u>      | <u>\$ 1,050</u>      |

References:

Col [A]: Company Schedule A-2 (B)

Col [B]: Col [C] - Col [A]

Col [C]: MJR Testimony

CORDES LAKES WATER COMPANY  
Docket No. W-02060A-12-0356  
Test Year Ended December 31, 2011

Surrebuttal MJR-22

OPERATING INCOME ADJUSTMENT #10 - RATE CASE EXPENSE

|            |                    | [A]                         | [B]                          | [C]                          |
|------------|--------------------|-----------------------------|------------------------------|------------------------------|
| LINE       |                    |                             |                              |                              |
| <u>NO.</u> | <u>DESCRIPTION</u> | <u>COMPANY<br/>PROPOSED</u> | <u>STAFF<br/>ADJUSTMENTS</u> | <u>STAFF<br/>RECOMMENDED</u> |
| 1          | Rate Case Expense  | <u>\$ -</u>                 | <u>\$ 6,000</u>              | <u>\$ 6,000</u>              |

References:

Col [A]: Company Schedule E-2

Col [B]: Col [C] - Col [A]

Col [C]: MJR Surrebuttal Testimony

CORDES LAKES WATER COMPANY  
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Test Year Ended December 31, 2011

Surrebuttal MJR-23

OPERATING INCOME ADJUSTMENT #11 - OUTSIDE ACCOUNTING SERVICES

| LINE |                              | [A]                 | [B]                  | [C]                  |
|------|------------------------------|---------------------|----------------------|----------------------|
| NO.  | DESCRIPTION                  | COMPANY<br>PROPOSED | STAFF<br>ADJUSTMENTS | STAFF<br>RECOMMENDED |
| 1    | Outside Sevices - Accounting | <u>\$ 3,660</u>     | <u>\$ 6,340</u>      | <u>\$ 10,000</u>     |

References:

Col [A]: Company Schedule E-2

Col [B]: Col [C] - Col [A]

Col [C]: MJR Surrebuttal Testimony

OPERATING INCOME ADJUSTMENT #12 - BAD DEBT EXPENSE

| LINE |                              | [A]                 | [B]                  | [C]                  |
|------|------------------------------|---------------------|----------------------|----------------------|
| NO.  | DESCRIPTION                  | COMPANY<br>PROPOSED | STAFF<br>ADJUSTMENTS | STAFF<br>RECOMMENDED |
| 1    | Misc. Expense - Bank Charges | \$ 1,304            | \$ -                 | \$ 1,304             |
| 2    | Bad Debt Expense             | -                   | \$ 1,934             | 1,934                |
| 3    | Total                        | <u>\$ 1,304</u>     | <u>\$ 1,934</u>      | <u>\$ 3,238</u>      |
|      | \$ 43 Write-off in 2007      |                     |                      |                      |
|      | 1,488 Write-off in 2008      |                     |                      |                      |
|      | 4,079 Write-off in 2009      |                     |                      |                      |
|      | 2,048 Write-off in 2010      |                     |                      |                      |
|      | <u>\$ 7,658</u>              |                     |                      |                      |
|      | 4.00 Years                   |                     |                      |                      |
|      | <u>\$ 1,914</u>              |                     |                      |                      |
|      | \$ 420,536 Test Year Revenue |                     |                      |                      |
|      | 0.46% Average write-off rate |                     |                      |                      |

References:

Col [A]: Company Schedule E-2

Col [B]: Col [C] - Col [A]

Col [C]: MJR Surrebuttal Testimony

**RATE DESIGN**

| Monthly Usage Charge         |                             | Present  | -Proposed Rates- |          |
|------------------------------|-----------------------------|----------|------------------|----------|
|                              |                             | Rates    | Company          | Staff    |
| <u>5/8" x 3/4" Meter</u>     |                             | N/A      | N/A              | N/A      |
| 3/4" Meter                   |                             | \$ 11.00 | \$ 13.50         | \$ 11.50 |
| 1" Meter                     |                             | 19.50    | 24.50            | 20.00    |
| 1 1/2" Meter                 |                             | 39.00    | 48.75            | 39.00    |
| 2" Meter                     |                             | 62.50    | 78.00            | 62.50    |
| 3" Meter                     |                             | 125.00   | 156.00           | 125.00   |
| 4" Meter                     |                             | 220.00   | 275.00           | 192.50   |
| 6" Meter                     |                             | 390.00   | 485.00           | 385.00   |
| 8" Meter                     |                             | N/A      | N/A              | N/A      |
| 10" Meter                    |                             | N/A      | N/A              | N/A      |
| 12" Meter                    |                             | N/A      | N/A              | N/A      |
| Gallons Included in Minimum  |                             | 0        | 0                | 0        |
| <u>Commodity Rate Charge</u> |                             |          |                  |          |
| <u>3/4" Meter</u>            |                             |          |                  |          |
| <u>Company</u>               |                             |          |                  |          |
| Tier 1                       | From 0 to 3,000 gallons     | 2.80     | 3.30             |          |
| Tier 2                       | From 3,001 to 8,000 gallons | 4.30     | 5.25             |          |
| Tier 3                       | Over 8,000 gallons          | 5.00     | 6.00             |          |
| <u>Staff</u>                 |                             |          |                  |          |
| Tier 1                       | From 0 to 3,000 gallons     |          |                  | 2.80     |
| Tier 2                       | From 3,001 to 8,000 gallons |          |                  | 4.20     |
| Tier 3                       | Over 8,000 gallons          |          |                  | 6.45     |
| <u>1" Meter</u>              |                             |          |                  |          |
| <u>Company</u>               |                             |          |                  |          |
| Tier 1                       | From 0 to 18,000 gallons    | 4.30     | 5.25             |          |
| Tier 2                       | Over 18,000 gallons         | 5.00     | 6.00             |          |
| <u>Staff</u>                 |                             |          |                  |          |
| Tier 1                       | From 0 to 10,000 gallons    |          |                  | 4.20     |
| Tier 2                       | Over 10,000 gallons         |          |                  | 6.45     |
| <u>1 1/2" Meter</u>          |                             |          |                  |          |
| <u>Company</u>               |                             |          |                  |          |
| Tier 1                       | From 0 to 43,500 gallons    | 4.30     | 5.25             |          |
| Tier 2                       | Over 43,500 gallons         | 5.00     | 6.00             |          |
| <u>Staff</u>                 |                             |          |                  |          |
| Tier 1                       | From 0 to 17,000 gallons    |          |                  | 4.20     |
| Tier 2                       | Over 17,000 gallons         |          |                  | 6.45     |
| <u>2" Meter</u>              |                             |          |                  |          |
| <u>Company</u>               |                             |          |                  |          |
| Tier 1                       | From 0 to 75,000 gallons    | 4.30     | 5.25             |          |
| Tier 2                       | Over 75,000 gallons         | 5.00     | 6.00             |          |
| <u>Staff</u>                 |                             |          |                  |          |
| Tier 1                       | From 0 to 26,000 gallons    |          |                  | 4.20     |
| Tier 2                       | Over 26,000 gallons         |          |                  | 6.45     |
| <u>3" Meter</u>              |                             |          |                  |          |
| <u>Company</u>               |                             |          |                  |          |
| Tier 1                       | From 0 to 160,000 gallons   | 4.30     | 5.25             |          |
| Tier 2                       | Over 160,000 gallons        | 5.00     | 6.00             |          |
| <u>Staff</u>                 |                             |          |                  |          |
| Tier 1                       | From 0 to 50,000 gallons    |          |                  | 4.20     |
| Tier 2                       | Over 50,000 gallons         |          |                  | 6.45     |
| <u>4" Meter</u>              |                             |          |                  |          |
| <u>Company</u>               |                             |          |                  |          |
| Tier 1                       | From 0 to 290,000 gallons   | 4.30     | 5.25             |          |
| Tier 2                       | Over 290,000 gallons        | 5.00     | 6.00             |          |
| <u>Staff</u>                 |                             |          |                  |          |
| Tier 1                       | From 0 to 75,000 gallons    |          |                  | 4.20     |
| Tier 2                       | Over 75,000 gallons         |          |                  | 6.45     |
| <u>6" Meter</u>              |                             |          |                  |          |
| <u>Company</u>               |                             |          |                  |          |
| Tier 1                       | From 0 to 530,000 gallons   | 4.30     | 5.25             |          |
| Tier 2                       | Over 530,000 gallons        | 5.00     | 6.00             |          |
| <u>Staff</u>                 |                             |          |                  |          |
| Tier 1                       | From 0 to 150,000 gallons   |          |                  | 4.20     |
| Tier 2                       | Over 150,000 gallons        |          |                  | 6.45     |

**RATE DESIGN**

Service Line and Meter Installation Charges

| Service Line and Meter Installation Charges | N/T      | N/T           | Service Line | Meter Installation | Total    |
|---|----------|---------------|--------------|--------------------|----------|
|   |          |               | N/T          | N/T                | N/T      |
| 5/8" x 3/4" Meter                           |          |               |              |                    |          |
| 3/4" Meter                                  | 520.00   | Same as Staff | 426.00       | 198.00             | 624.00   |
| 1" Meter                                    | 610.00   | Same as Staff | 486.00       | 246.00             | 732.00   |
| 1 1/2" Meter                                | 855.00   | Same as Staff | 528.00       | 498.00             | 1,026.00 |
| 2" Meter                                    | 1,515.00 | Same as Staff | 720.00       | 1,098.00           | 1,818.00 |
| 3" Meter                                    | 2,195.00 | Same as Staff | 930.00       | 1,764.00           | 2,694.00 |
| 4" Meter                                    | 3,360.00 | Same as Staff | 1,332.00     | 2,700.00           | 4,032.00 |
| 6" Meter                                    | 6,115.00 | Same as Staff | 2,000.00     | 5,350.00           | 7,350.00 |

Service Charges

|   |         |         |         |
|---|---------|---------|---------|
| Establishment                                 | \$25.00 | \$30.00 | \$30.00 |
| Establishment (After Hours)                   | \$35.00 | \$40.00 | NT      |
| Reconnection (Delinquent)                     | \$15.00 | \$20.00 | \$20.00 |
| Reconnection (Delinquent) After Hours         | \$25.00 | \$30.00 | NT      |
| NSF Check                                     | \$12.50 | \$15.00 | \$15.00 |
| Meter Re-Read (if Correct)                    | \$10.00 | \$12.00 | \$12.00 |
| Meter Test (if Correct)                       | \$25.00 | \$30.00 | \$30.00 |
| Deferred Payment (per Month)                  | 1.5%    | 1.5%    | ***     |
| Deposit Amount                                | *       | *       | *       |
| Deposit Interest                              | *       | *       | *       |
| Re-Establishment (Within 12 Months)           | **      | **      | **      |
| Late Fee (per Month)                          | 1.5%    | 1.5%    | ***     |
| Road Cutting or Boring                        | Cost    | Cost    | Cost    |
| After Hours Service Charge (Customer Request) | N/T     | N/T     | \$35.00 |

NT = No Tariff

Monthly Service Charge for Fire Sprinkler

|                 |        |        |      |
|-----------------|--------|--------|------|
| 4" or Smaller   | \$0.00 | \$0.00 | **** |
| 6"              | 0.00   | 0.00   | **** |
| 8"              | 0.00   | 0.00   | **** |
| 10"             | 0.00   | 0.00   | **** |
| Larger than 10" | 0.00   | 0.00   | **** |

\* Per Commission Rules (R14-2-403.B)

\*\* Months off system times the minimum (R14-2-403.D)

\*\*\* 1.5% on the unpaid balance per month

\*\*\*\* 2.00% of Monthly Minimum for a Comparable Sized Meter Connection, but no less than \$10.00 per month. The Service Charge for Fire Sprinklers is only applicable for service lines separate and distinct from the primary water service line.

CORDES LAKES WATER COMPANY  
Docket No. W-02060A-12-0356  
Test Year Ended December 31, 2011

Surrebuttal MJR-26

**TYPICAL BILL ANALYSIS**  
General Service 3/4 - Inch Meter

Average Number of Customers: 1,291

| <u>Company Proposed</u> | <u>Gallons</u> | <u>Present Rates</u> | <u>Proposed Rates</u> | <u>Dollar Increase</u> | <u>Percent Increase</u> |
|-------------------------|----------------|----------------------|-----------------------|------------------------|-------------------------|
| Average Usage           | 4,169          | \$24.42              | \$29.54               | \$5.11                 | 20.92%                  |
| Median Usage            | 3,088          | \$19.78              | \$23.86               | \$4.08                 | 20.65%                  |

| <u>Staff Recommend</u> |       |         |         |        |       |
|------------------------|-------|---------|---------|--------|-------|
| Average Usage          | 4,169 | \$24.42 | \$24.81 | \$0.38 | 1.57% |
| Median Usage           | 3,088 | \$19.78 | \$20.27 | \$0.49 | 2.48% |

Present & Proposed Rates (Without Taxes)  
General Service 3/4 - Inch Meter

| <u>Gallons Consumption</u> | <u>Present Rates</u> | <u>Company Proposed Rates</u> | <u>% Increase</u> | <u>Staff Proposed Rates</u> | <u>% Increase</u> |
|----------------------------|----------------------|-------------------------------|-------------------|-----------------------------|-------------------|
| 0                          | \$11.00              | \$13.50                       | 22.73%            | \$11.50                     | 4.55%             |
| 1,000                      | 13.80                | 16.80                         | 21.74%            | 14.30                       | 3.62%             |
| 2,000                      | 16.60                | 20.10                         | 21.08%            | 17.10                       | 3.01%             |
| 3,000                      | 19.40                | 23.40                         | 20.62%            | 19.90                       | 2.58%             |
| 4,000                      | 23.70                | 28.65                         | 20.89%            | 24.10                       | 1.69%             |
| 5,000                      | 28.00                | 33.90                         | 21.07%            | 28.30                       | 1.07%             |
| 6,000                      | 32.30                | 39.15                         | 21.21%            | 32.50                       | 0.62%             |
| 7,000                      | 36.60                | 44.40                         | 21.31%            | 36.70                       | 0.27%             |
| 8,000                      | 40.90                | 49.65                         | 21.39%            | 40.90                       | 0.00%             |
| 9,000                      | 45.90                | 55.65                         | 21.24%            | 47.35                       | 3.16%             |
| 10,000                     | 50.90                | 61.65                         | 21.12%            | 53.80                       | 5.70%             |
| 15,000                     | 75.90                | 91.65                         | 20.75%            | 86.05                       | 13.37%            |
| 20,000                     | 100.90               | 121.65                        | 20.56%            | 118.30                      | 17.24%            |
| 25,000                     | 125.90               | 151.65                        | 20.45%            | 150.55                      | 19.58%            |
| 50,000                     | 250.90               | 301.65                        | 20.23%            | 311.80                      | 24.27%            |
| 75,000                     | 375.90               | 451.65                        | 20.15%            | 473.05                      | 25.84%            |
| 100,000                    | 500.90               | 601.65                        | 20.11%            | 634.30                      | 26.63%            |
| 125,000                    | 625.90               | 751.65                        | 20.09%            | 795.54                      | 27.10%            |
| 150,000                    | 750.90               | 901.65                        | 20.08%            | 956.79                      | 27.42%            |
| 175,000                    | 875.90               | 1,051.65                      | 20.07%            | 1,118.04                    | 27.64%            |
| 200,000                    | 1,000.90             | 1,201.65                      | 20.06%            | 1,279.29                    | 27.81%            |

BEFORE THE ARIZONA CORPORATION COMMISSION

BOB STUMP

Chairman

GARY PIERCE

Commissioner

BRENDA BURNS

Commissioner

BOB BURNS

Commissioner

SUSAN BITTER SMITH

Commissioner

IN THE MATTER OF THE APPLICATION OF )  
CORDES LAKES WATER COMPANY FOR )  
AN INCREASE IN ITS RATES )  
\_\_\_\_\_ )

DOCKET NO. W-02060A-12-0356

SURREBUTTAL

TESTIMONY

OF

MARY J. RIMBACK

PUBLIC UTILITIES ANALYST

UTILITIES DIVISION

ARIZONA CORPORATION COMMISSION

MAY 17, 2013



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**EXECUTIVE SUMMARY  
CORDES LAKES WATER COMPANY  
DOCKET NO. W-02060A-12-0356**

The Surrebuttal Testimony of Staff witness Mary J. Rimback addresses the issues of rate base, operating income, revenue requirement, and rate design for Cordes Lakes Water Company ("Cordes Lakes" or "Company").

The Company's Rebuttal Testimony requests an increase in revenue of \$50,372 (11.95 percent) increase over test year revenue of \$420,536. The total annual revenue of \$470,807 produces operating income of \$23,508 for a 10.55 percent rate of return on fair value rate base ("FVRB") which is also its original cost rate basis ("OCRB") of \$222,825. The Company's Rebuttal Testimony withdraws the request for surcharges made in its original rate application.

The Utilities Division ("Staff") recommends total operating revenue of \$441,810, a \$21,274 (5.06 percent) increase over the \$420,536 Staff-adjusted test year revenue, to provide a \$13,069 operating income and a 9.0 percent rate of return on the \$145,210 Staff-adjusted FVRB and OCRB. Staff's Surrebuttal revenue requirement represents a \$13,072 increase from its Direct Testimony. Staff recommended rates would increase the typical 5/8 x 3/4-inch meter residential water bill with median usage of \$3,088 by \$0.49 (2.48 percent) from \$19.78 to \$20.27.

1    **I.     INTRODUCTION**

2    **Q.     Please state your name, occupation, and business address.**

3    A.     My name is Mary J. Rimback; I am a Public Utilities Analyst Arizona Corporation  
4           Commission ("ACC" or "Commission") in the Utilities Division ("Staff"). My business  
5           address is 1200 West Washington Street, Phoenix, Arizona 85007.

6  
7    **Q.     Are you the same Mary J. Rimback who previously submitted Direct Testimony in**  
8           **this case?**

9    A.     Yes, I am.

10  
11   **Q.     How is your testimony organized?**

12   A.     My testimony is presented in four sections. Section I is this introduction. Section II  
13           provides the purpose of the testimony. Section III is a summary of recommendations.  
14           Section IV presents Staff's response to the Rebuttal Testimony of Mr. Matthew Rowell.

15  
16   **II.    PURPOSE OF SURREBUTTAL TESTIMONY**

17   **Q.     What is the purpose of your Surrebuttal Testimony in this proceeding?**

18   A.     The purpose of my Surrebuttal Testimony in this proceeding is to respond to the Rebuttal  
19           Testimony of Cordes Lakes Water Company ("Cordes Lakes" or "Company") witness Mr.  
20           Matthew Rowell and to present Staff's Surrebuttal position regarding rate base, operating  
21           income, revenue requirement and rate design issues.

22

1 **Q. Do you attempt to address every issue raised by the Company in its Rebuttal**  
2 **Testimony?**

3 A. No, my silence on any particular issue raised in the Company's Rebuttal Testimony does  
4 not indicate that Staff agrees with the Company's rebuttal position on that issue. I rely on  
5 my Direct Testimony unless modified by this Surrebuttal Testimony.  
6

7 **Q. What issues will you address?**

8 A. My Surrebuttal Testimony addresses the following issues presented in Rebuttal Testimony  
9 of Mr. Rowell:  
10

- 11 1) Contributions in Aid of Construction ("CIAC") balance and CIAC amortization
- 12 2) Real property included in rate base
- 13 3) Bad debt expense
- 14 4) Staff's plant disallowance
- 15 5) Rate Case Expense
- 16 6) Post Test Year Plant
- 17 7) Accounting Expenses
- 18 8) Purchased Power Expenses
- 19 9) Revenue Requirement and Rate Design  
20

21 **III. SUMMARY OF RECOMMENDATIONS**

22 **Q. What Rebuttal revenue requirement is the Company proposing?**

23 A. The Company's Rebuttal Testimony is requesting total operating revenue of \$470,807, a  
24 \$50,271 or an 11.95 percent increase over test year revenue of \$420,536, to provide a  
25 \$23,508 operating income and a 10.55 percent rate of return on a proposed \$222,825 fair

1 value rate base ("FVRB") which is also the Company-proposed original cost rate base  
2 ("OCRB").  
3

4 **Q. Please provide a summary of Staff's Surrebuttal recommendations.**

5 A. The Staff's Surrebuttal revenue requirement of \$441,810 represents an increase of \$21,274  
6 or 5.06 percent over test year revenue of \$420,536 to provide a \$13,069 operating income  
7 and a 9.00 percent rate of return on a proposed \$145,210 fair value rate base ("FVRB").  
8 Staff's Surrebuttal revenue requirement represents a \$13,072 increase from its Direct  
9 Testimony. Staff's recommended rates would increase the typical 5/8 x 3/4-inch meter  
10 residential water bill with median usage of 3,088 gallons by \$0.49 (2.48 percent), from  
11 \$19.78 to \$20.27.  
12

13 **IV. RESPONSE TO REBUTTAL TESTIMONY OF MATTHEW ROWELL**

14 *CIAC Balance and Accumulated Amortization of CIAC*

15 **Q. What is the Company proposing for CIAC and Accumulated Amortization of CIAC**  
16 **in its Rebuttal?**

17 A. The Company's Rebuttal proposes \$92,754 for CIAC and \$53,720 for Accumulated  
18 Amortization of CIAC resulting in a \$39,034 Net CIAC balance. The Company presents  
19 Schedule 1 that list CIAC and CIAC amortizations for the period beginning in 1999 and  
20 continuing through to December 31, 2012. The Company provided no support for the  
21 amounts presented in Schedule 1. The Company also asserts that Staff misinterpreted  
22 Decision No. 54526 and that the CIAC that Decision directed not to be amortized refers to  
23 additional advances to be converted to CIAC that are not included in Staff \$76,247 CIAC  
24 balance. Further the Company claims that these additional CIAC amounts pertain to the  
25 Verde Village System that the City of Cottonwood condemned and that the CIAC

1 associated with the Verde Village System would have been conveyed with the  
2 condemnation.

3  
4 **Q. What is Staff's response to the Company's assertions regarding CIAC and**  
5 **Accumulated Amortization of CIAC?**

6 A. First, it appears that Staff and the Company agree that the CIAC related to the Verde  
7 Village System should not be included in rate base. Second, whether the CIAC balance  
8 should reflect amortization is determined by the Commission Orders. Staff has further  
9 reviewed Decision Nos. 54526 and 70170<sup>1</sup> for the Company's prior two rate cases and  
10 concluded that Decision No. 54526 did not authorize amortization of CIAC; however,  
11 Decision No. 70170 did authorize amortization of CIAC. The latter authorization is  
12 inferred by the adoption of Staff's recommendations which included Staff's depreciation  
13 expenses. Staff Surrebuttal Schedule GTM-18 in that case shows that Staff deducted an  
14 amount for the amortization of CIAC in its calculation of depreciation expense. Thus,  
15 amortization of the \$76,247 CIAC balance should have begun on the effective date of  
16 rates in the prior rate case, but not before that date. Staff's Surrebuttal reflects the  
17 accumulation of amortization from March 2008 through the end of the test year.

18  
19 **Q. How did Staff calculate depreciation expense in Surrebuttal Schedule GTM-18 in the**  
20 **prior rate case?**

21 A. Schedule GTM-18 shows that Staff recommended \$25,137 for depreciation expense. The  
22 recommended depreciation expense represents a gross (prior to CIAC amortization)  
23 depreciation of \$30,063 reduced by \$4,926 for the amortization of CIAC. The  
24 amortization of CIAC is calculated using a composite rate of depreciation expense. The

---

<sup>1</sup> Docket No. W-02060A-07-0256 (February 28, 2008).

1 composite rate is the depreciation expense for the test year divided by the amount of  
2 depreciable plant in the test year.

3  
4 **Q. What adjustment does Staff recommend for CIAC and Accumulated Amortization**  
5 **of CIAC?**

6 A. Staff recommends the CIAC balance adopted in Decision No. 70170 of \$76,247 and an  
7 accumulated amortization of CIAC balance adjusted upward from \$0 in Direct Testimony  
8 to \$18,710. The accumulated amortization balance is based on the composite rate of  
9 depreciation expense for each annual period from March 1, 2008, through the end of the  
10 test year December 31, 2011, as shown in Surrebuttal Schedule MJR-9. Amortization of  
11 CIAC in the test year of \$3,514 is deducted from depreciation expense as shown in  
12 Surrebuttal Schedule MJR-16.

13  
14 *Real Property included in Rate Base*

15 **Q. Did the Company's Rebuttal Testimony propose to revise from its original**  
16 **application the amount of real property it is proposing to include in rate base?**

17 A. Yes. The Company's original filing proposed including \$35,665 for *Land and Land*  
18 *Rights*. Staff removed this amount entirely because the investment pertains to a parcel of  
19 land that is not used and useful, and the Company's Rebuttal position agrees with Staff's  
20 determination for that parcel. However, in Rebuttal the Company claims that its books  
21 carry a balance of \$85,599 for land, and therefore is requesting to include the \$49,934  
22 (\$85,599 - \$35,665) balance in rate base.

23

1    **Q.    What support did the Company provide for its revised land request?**

2    A.    The Company's only support is Schedule 3 attached to the Rebuttal Testimony of  
3        Company witness Mr. Matthew Rowell and a statement that this is a reasonable amount  
4        considering that its wells and booster pumps are positioned on land.

5  
6    **Q.    Does Staff consider the Company's support for its land request adequate?**

7    A.    No. The Company should provide support showing the owner's name, date(s), transaction  
8        values, locations and dimensions of the claimed land along with an explanation of the  
9        plant located on each parcel. Also if this land is for utility use, the Company should  
10       explain why its Schedule 3 shows five sales transactions reducing the land account  
11       balance.

12  
13   **Q.    What does Staff recommend?**

14   A.    Staff continues to recommend disallowance of all amounts the Company requests for  
15       including land in rate base

16  
17   *Bad Debt Expense*

18   **Q.    Did the Company's Rebuttal Testimony introduce a new request for bad debt**  
19       **expense?**

20   A.    Yes, the Company in its Rebuttal Testimony is requesting \$4,049 for bad debt expense -  
21       all of which it recorded in October of 2011.

22  
23   **Q.    What are Staff's comments regarding bad debt expense?**

24   A.    Bad debt expense typically varies significantly from year to year for various reasons  
25       including the variances in the consistency used by the Company to write-off receivables.  
26       Thus, it is appropriate to review a multi-year history of bad debts to determine whether a



1 normalized amount is more representative of the likely on-going amount versus the actual  
2 test year amount. In response to Staff data request MJR 2-1, the Company provided  
3 support to the following write-offs by year: 2007, \$43; 2008, \$1,488; 2009, \$4,079 and  
4 2010, \$2,048 which Staff calculated as approximately 0.46 percent of revenue.  
5 Accordingly, Staff concludes that normalizing bad debt expense at 0.46 percent of  
6 revenues is appropriate.

7  
8 **Q. What does Staff recommend for bad debts expense?**

9 A. Staff recommends \$1,934 for test year bad debt expense, as shown in Surrebuttal Schedule  
10 MJR-24 and recognition of a 0.46 percent bad debt rate in the gross revenue conversion  
11 factor, as shown in Surrebuttal Schedule MJR-2.

12  
13 *Plant Disallowance*

14 **Q. Did Staff request the Company to provide support for all plant additions since the**  
15 **end of the test year (December 31, 2006) in the prior rate case?**

16 A. Yes, Staff requested invoices to support all amounts added to plant since test year 2006.

17  
18 **Q. Did the Company provide invoices to verify all of its plant additions from 2006**  
19 **through the test year?**

20 A. Not completely, the Company provided invoices for \$97,600 of the \$100,635 plant  
21 additions in its application, a shortfall of \$3,035.

22  
23 **Q. Did Staff's recommended \$11,818 disallowance its Direct Testimony include this**  
24 **\$3,035 shortfall?**

25 A. Yes.  
26

1 **Q. Does Exhibit 4 in the Company's Rebuttal Testimony represent the invoice for the**  
2 **\$3,035 shortfall as it claims?**

3 A. No. Exhibit 4 attached to the Company's Rebuttal Testimony is a copy of an invoice  
4 amounting to \$20,299. Handwritten on the invoice are the amounts: CLWC \$6,766 and  
5 BWC \$13,533 indicating that \$6,766 pertains to Cordes Lakes and \$13,533 pertains to  
6 Berneil Water Company (Cordes Lakes and Berneil Water Company ("BWC") have  
7 common ownership). Neither of these amounts account for the \$3,035 of missing invoices  
8 for the claimed plant. The \$6,766.67 charge to Cordes Lakes is not the missing \$3,035,  
9 and while Schedule 2 of the Company's Rebuttal Testimony labels the amount of \$13,533  
10 for Invoice No. S1016897 as a missing amount, as noted above, the handwriting on the  
11 invoice (Rebuttal Exhibit 4) indicates that the \$13,533 amount is for BWC, not Cordes  
12 Lakes.  
13

14 **Q. Does the Company have a written capitalization policy?**

15 A. No. Staff asked the Company whether it had a written capitalization policy, and it replied  
16 that it did not have a written capitalization policy. In response to Staff Data Request  
17 MJR1-10, the Company gave the following explanation of its expense versus capitalized  
18 method:  
19

20 Almost all purchases are expensed or are considered section 179 property  
21 for tax purposes. The decision is based upon how long the items are  
22 expected to last. There is no written policy. During the test year a  
23 replacement pump was expensed for \$5,200.  
24

25 **Q. How did Staff interpret the Company statement regarding capitalization versus**  
26 **expensing costs?**

27 A. The Company's response indicates to Staff that its dollar capitalization threshold is greater  
28 than \$5,200. However, absence of a written policy increases the potential for inconsistent

1 application of the Company's capitalization policy. The statement also implies that the  
2 Company utilizes tax accounting versus the Commission authorized National Association  
3 of Regulatory Utility Commissioners ("NARUC") Uniform System of Accounts  
4 ("USoA").  
5

6 **Q. Is the Company's proposed capitalization as shown in Exhibit 5 of its Rebuttal**  
7 **Testimony consistent with the explanation it provided Staff of its capitalization**  
8 **policy?**

9 A. No. The Company's explanation of its capitalization policy indicates that it expenses  
10 instead of capitalizing amounts of \$5,200 or less. Exhibit 5 shows the Company  
11 capitalizing the much lower amount of \$865. The Company apparently does not  
12 consistently apply a capitalization policy, and its proposed capitalization of the costs as  
13 shown on Schedule 2 of its Rebuttal Testimony is not supported by its policy.  
14

15 **Q. What does Staff recommend regarding plant additions since the prior rate case?**

16 A. Staff continues to recommend the \$11,818 disallowance of plant that it recommended in  
17 Direct Testimony. Staff also recommends that the Company adopt a written capitalization  
18 policy.  
19

20 *Rate Case Expense*

21 **Q. Did the Company newly propose an amount for rate case expense in its Rebuttal**  
22 **Testimony?**

23 A. Yes, the Company proposed to amortize \$18,000 of rate case expense over three years,  
24 i.e., \$6,000 per year.  
25

1 **Q. What does Staff recommend?**

2 A. Staff recommends approval of the Company's request to include \$6,000 for annual rate  
3 case expense as an amortization of \$18,000 over three years, as shown in Surrebuttal  
4 Schedule MJR-22. Staff also recommends that the Order specify that no rate case expense  
5 from this case is to be included in rates in any future rate case.  
6

7 *Post Test Year Plant*

8 **Q. Did the Company's Rebuttal Testimony increase plant, accumulated depreciation  
9 and depreciation expense by amounts attributed to post-test year plant?**

10 A. Yes, the Company proposes to include in rate base post-test year plant in the amount of  
11 \$16,324 (\$7,680 for 2013 and \$8,643 for 2012) and to increase accumulated depreciation  
12 by \$2,641 and to increase depreciation expense by \$1,560.  
13

14 **Q. Did the Company provide support for any of its requested post-test year plant?**

15 A. No. The Company needs to provide documentation of its proposed post-test year plant  
16 improvements for them to be considered in rates.  
17

18 **Q. What is Staff's recommendation?**

19 A. Staff recommends not including the Company's proposed post-test year amounts in the  
20 rate base or expenses without adequate documentation.  
21

22 *Accounting Expenses*

23 **Q. Does the Company request in its Rebuttal Testimony an increase operating expense  
24 for outside accounting services?**

25 A. Yes, the Company requests to increase by \$6,340, from \$3,660 to \$10,000 its outside  
26 accounting services expense.

1 **Q. What is Staff's recommendation as to the outside accounting services?**

2 A. Staff recommends approval of the revised accounting services expense to \$10,000 subject  
3 to the Company submitting documentation of entering a contract for accounting services  
4 prior to the date of the hearing in this rate proceeding, as shown in Surrebuttal Schedule  
5 MJR-23.

6  
7 *Purchased Power Expenses*

8 **Q. Did the Company's Rebuttal Testimony request a pro forma adjustment to increase**  
9 **purchased power expense?**

10 A. Yes, the Company requests a pro forma \$917 increase in purchased power expense due to  
11 changes in the charges the Commission authorized in its power provider (APS) in  
12 Decision No. 73183.

13  
14 **Q. Did the Company provide any support for the amount of its pro form request in its**  
15 **Rebuttal Testimony?**

16 A. No. While Staff supports the concept of recognizing a pro forma adjustment for the  
17 change in the rates charged by the Company's power provider, the Company has not  
18 provided calculations to support its \$917 quantification of the impact on its purchased  
19 power costs. Absent this support, Staff does not recommend adoption of this pro forma  
20 request.

21  
22 *Revenue Requirement and Rate Design*

23 **Q. Did Staff update its rate design to reflect its Surrebuttal revenue requirement?**

24 A. Yes.  
25

1    **Q.    Does Staff have any comments regarding the Company's Rebuttal Testimony**  
2    **pertaining to the issue of rate design?**

3    A.    Yes. The Company's primary concern with Staff's rate design is that it does not provide  
4    the level of revenue stability the Company desires. To support its position the Company  
5    notes that Staff assigned all of the revenue increase to the second and third commodity  
6    rate tiers and the recommended rate design generates 41 percent of the revenue from the  
7    monthly minimum charges and 59 percent from the commodity charges.

8  
9    Staff's assignment of the entire revenue increase to the commodity rates was a function of  
10   the relatively small revenue increase. Since Staff typically targets generating 30 percent  
11   to 40 percent of the revenue from the minimum monthly charge, the 41 percent result is  
12   consistent with providing adequate revenue stability. Since Staff's Surrebuttal rate design  
13   generates more revenue than its direct rate design, Staff is now recommending increases to  
14   the monthly minimum charges for some meter sizes. In addition, Staff's Surrebuttal rate  
15   design reduces the break-over points to provide additional revenue stability. Staff's  
16   Surrebuttal rate design generates 41.6 percent of the revenue from the minimum monthly  
17   charges and 58.4 percent from the commodity rates. Staff's recommended rates are shown  
18   in Schedule MJR-24 and the typical bill analysis for 3/4-inch meter customers is shown in  
19   Schedule MJR-25.

20  
21   **Q.    Does this conclude your testimony?**

22   A.    Yes, it does.

CORDES LAKES WATER COMPANY

Docket No. W-02060A-12-0356

Test Year Ended December 31, 2011

SURREBUTTAL TESTIMONY OF Mary J. Rimback

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REVENUE REQUIREMENT

| LINE<br>NO. | DESCRIPTION  | (A)<br>COMPANY<br>ORIGINAL<br>COST | (B)<br>STAFF<br>ORIGINAL<br>COST |
|-------------|--|------------------------------------|----------------------------------|
| 1           | Adjusted Rate Base                                 | \$ 496,789                         | \$ 145,210                       |
| 2           | Adjusted Operating Income (Loss) <sup>1</sup>      | \$ (17,373)                        | \$ (3,363)                       |
| 3           | Current Rate of Return (L2 / L1) <sup>2</sup>      | 0.00%                              | -2.32%                           |
| 4           | Required Rate of Return                            | 8.00%                              | 9.00%                            |
| 5           | Required Operating Income (L4 * L1) <sup>3,4</sup> | \$ 37,000                          | \$ 13,069                        |
| 6           | Operating Income Deficiency (L5 - L2) <sup>5</sup> | \$ 68,000                          | \$ 16,432                        |
| 7           | Gross Revenue Conversion Factor                    | None                               | 1.2946                           |
| 8           | Required Revenue Increase (L7 * L6) <sup>6</sup>   | \$ 77,000                          | \$ 21,274                        |
| 9           | Adjusted Test Year Revenue                         | \$ 403,993                         | \$ 420,536                       |
| 10          | Proposed Annual Revenue (L8 + L9) <sup>7</sup>     | \$ 498,366                         | \$ 441,810                       |
| 11          | Required Increase in Revenue (%)                   | 19.06%                             | 5.06%                            |

References:

Column (A): Company Schedule B-1 Rate Base, Revised E-2 (9/24/2012) Income Statement

Column (B): Staff Schedule MJR-3 & MJR-11

<sup>1</sup> The Company's application (Schedule A-1) uses Net Income as Operating Income.

<sup>2</sup> The Company's rate of return, as filed, is not a mathematical product of Operating Income divided by rate base.

<sup>3</sup> Rate base (\$496,789) times ROR (8.0%) equals \$39,743.

<sup>4</sup> The Company requests a \$30,000 water loss repair surcharge and a \$10,000 meter replacement surcharge.

<sup>5</sup> The Company's amount is not mathematically correct.

<sup>6</sup> The Company's amount is the total of Required Operating Income and both surcharges (\$37,000 + \$30,000 + \$10,000). However, the Company's request for a \$30,000 water loss surcharge only extends for two years and the \$10,000 meter replacement surcharge only extends for three years.

<sup>7</sup> Company's amount represents test year revenue (\$403,993) plus adjusted operating loss (\$17,373) plus required operating income (\$37,000) plus annual water loss surcharge (\$30,000) plus annual meter replacement surcharge (\$10,000).



GROSS REVENUE CONVERSION FACTOR

| LINE NO.  | DESCRIPTION  | (A)        | (B)       | (C)        | (D)      |
|---|--|------------|-----------|------------|----------|
| <u>Calculation of Gross Revenue Conversion Factor</u> |  |            |           |            |          |
| 1   | Revenue  | 100.0000%  |           |            |          |
| 2   | Uncollectible Factor (Line 11)   | 0.3638%    |           |            |          |
| 3   | Revenues (L1 - L2)   | 99.6362%   |           |            |          |
| 4   | Combined Federal and State Tax Rate (Line 17) + Property Tax Factor (Line 22)                        | 22.3951%   |           |            |          |
| 5   | Subtotal (L3 - L4)   | 77.2412%   |           |            |          |
| 6   | Revenue Conversion Factor (L1 / L5)  | 1.294647   |           |            |          |
| <u>Calculation of Uncollectible Factor</u>            |  |            |           |            |          |
| 7   | Unity  | 100.0000%  |           |            |          |
| 8   | Combined Federal and State Tax Rate (Line 17)  | 20.9228%   |           |            |          |
| 9   | One Minus Combined Income Tax Rate (L7 - L8)   | 79.0772%   |           |            |          |
| 10  | Uncollectible Rate   | 0.4600%    |           |            |          |
| 11  | Uncollectible Factor (L9 * L10)  | 0.3638%    |           |            |          |
| <u>Calculation of Effective Tax Rate</u>              |  |            |           |            |          |
| 12  | Operating Income Before Taxes (Arizona Taxable Income)   | 100.0000%  |           |            |          |
| 13  | Arizona State Income Tax Rate  | 6.9680%    |           |            |          |
| 14  | Federal Taxable Income (L12 - L13)   | 93.0320%   |           |            |          |
| 15  | Applicable Federal Income Tax Rate (Line 53)   | 15.0000%   |           |            |          |
| 16  | Effective Federal Income Tax Rate (L14 x L15)  | 13.9548%   |           |            |          |
| 17  | Combined Federal and State Income Tax Rate (L13 + L16)   | 20.9228%   |           |            |          |
| <u>Calculation of Effective Property Tax Factor</u>   |  |            |           |            |          |
| 18  | Unity  | 100.0000%  |           |            |          |
| 19  | Combined Federal and State Tax Rate (Line 17)  | 20.9228%   |           |            |          |
| 20  | One Minus Combined Income Tax Rate (L18 - L19)   | 79.0772%   |           |            |          |
| 21  | Property Tax Factor (MJR-17, L24)  | 1.8618%    |           |            |          |
| 22  | Effective Property Tax Factor (L21 * L22)  | 1.4723%    |           |            |          |
| 23  | Combined Federal and State Tax and Property Tax Rate (L17+L22)                                       |            | 22.3951%  |            |          |
| 24  | Required Operating Income (Schedule MJR-1, Line 5)   | \$ 13,069  |           |            |          |
| 25  | Adjusted Test Year Operating Income (Loss) (Schedule MJR-11, Line 40)                                | \$ (3,363) |           |            |          |
| 26  | Required Increase in Operating Income (L24 - L25)  |            | \$ 16,432 |            |          |
| 27  | Income Taxes on Recommended Revenue (Col. (D), L52)  | \$ 3,458   |           |            |          |
| 28  | Income Taxes on Test Year Revenue (Col. (B), L52)  | \$ (890)   |           |            |          |
| 29  | Required Increase in Revenue to Provide for Income Taxes (L27 - L28)                                 |            | \$ 4,348  |            |          |
| 30  | Recommended Revenue Requirement (Schedule MJR-1, Line 10)  | \$ 441,810 |           |            |          |
| 31  | Uncollectible Rate (Line 10)   | 0.4600%    |           |            |          |
| 32  | Uncollectible Expense on Recommended Revenue (L24 * L25)   | \$ 2,032   |           |            |          |
| 33  | Adjusted Test Year Uncollectible Expense   | \$ 1,934   |           |            |          |
| 34  | Required Increase in Revenue to Provide for Uncollectible Exp. (L32 - L33)                           |            | \$ 98     |            |          |
| 35  | Property Tax with Recommended Revenue (MJR-17, L19)  | \$ 23,825  |           |            |          |
| 36  | Property Tax on Test Year Revenue (MJR-17, L16)  | \$ 23,429  |           |            |          |
| 37  | Increase in Property Tax Due to Increase in Revenue (MJR-17, L22)                                    |            | \$ 396    |            |          |
| 38  | Total Required Increase in Revenue (L26 + L29 + L34+L37)   |            | \$ 21,274 |            |          |
| <u>Calculation of Income Tax:</u>                     |  |            |           |            |          |
| 39  | Revenue (Schedule MJR-11, Col.(C), Line 5 & Sch. MJR-1, Col. (B), Line 10)                           | \$ 420,536 | \$ 21,274 | \$ 441,810 |          |
| 40  | Operating Expenses Excluding Income Taxes  | \$ 424,789 |           | \$ 425,283 |          |
| 41  | Synchronized Interest (L47)  | \$ -       |           | \$ -       |          |
| 42  | Arizona Taxable Income (L36 - L317- L38)   | \$ (4,253) |           | \$ 16,527  |          |
| 43  | Arizona State Income Tax Rate  | 6.9680%    |           | 6.9680%    |          |
| 44  | Arizona Income Tax (L39 x L40)   |            | \$ (296)  |            | \$ 1,152 |
| 45  | Federal Taxable Income (L42- L43)  | \$ (3,956) |           | \$ 15,375  |          |
| 46  | Federal Tax on First Income Bracket (\$1 - \$50,000) @ 15%   | \$ (593)   |           | \$ 2,306   |          |
| 47  | Federal Tax on Second Income Bracket (\$50,001 - \$75,000) @ 25%                                     | \$ -       |           | \$ -       |          |
| 48  | Federal Tax on Third Income Bracket (\$75,001 - \$100,000) @ 34%                                     | \$ -       |           | \$ -       |          |
| 49  | Federal Tax on Fourth Income Bracket (\$100,001 - \$335,000) @ 39%                                   | \$ -       |           | \$ -       |          |
| 50  | Federal Tax on Fifth Income Bracket (\$335,001 - \$10,000,000) @ 34%                                 | \$ -       |           | \$ -       |          |
| 51  | Total Federal Income Tax   | \$ (593)   |           | \$ 2,306   |          |
| 52  | Combined Federal and State Income Tax (L44 + L51)  | \$ (890)   |           | \$ 3,458   |          |
| 53  | Applicable Federal Income Tax Rate [Col. (D), L51 - Col. (B), L51] / [Col. (C), L45 - Col. (A), L45] |            |           |            | 15.0000% |
| <u>Calculation of Interest Synchronization:</u>       |  |            |           |            |          |
| 54  | Rate Base (Schedule MJR-3, Col. (C), Line 17)  | \$ 145,210 |           |            |          |
| 55  | Weighted Average Cost of Debt  | 0.00%      |           |            |          |
| 56  | Synchronized Interest (L54 X L56)  | \$ -       |           |            |          |

CORDES LAKES WATER COMPANY  
Docket No. W-02060A-12-0356  
Test Year Ended December 31, 2011

Surrebuttal MJR-3

**RATE BASE - ORIGINAL COST**

| LINE<br>NO.                                   | (A)<br>COMPANY<br>AS<br>FILED | (B)<br>STAFF<br>ADJUSTMENTS REF | (C)<br>STAFF<br>AS<br>ADJUSTED |
|---|-------------------------------|---------------------------------|--------------------------------|
| 1 Plant in Service                            | \$ 601,634                    | \$ 535,389                      | \$ 1,137,023                   |
| 2 Less: Accumulated Depreciation              | 139,712                       | 755,284                         | 894,996                        |
| 3 Net Plant in Service                        | <u>\$ 461,922</u>             | <u>\$ (219,895)</u>             | <u>\$ 242,027</u>              |
| <u>LESS:</u>                                  |                               |                                 |                                |
| 4 Contributions in Aid of Construction (CIAC) | \$ -                          | \$ 76,247                       | \$ 76,247                      |
| 5 Less: Accumulated Amortization              | -                             | 18,710                          | 18,710                         |
| 6 Net CIAC                                    | -                             | 57,537                          | 57,537                         |
| 7 Advances in Aid of Construction (AIAC)      | 21,110                        | -                               | 21,110                         |
| 8 Customer Deposits                           | 18,170                        | -                               | 18,170                         |
| 9 Deferred Income Tax Liabilities             | -                             | -                               | -                              |
| <u>ADD:</u>                                   |                               |                                 |                                |
| 10 Unamortized Finance Charges                | -                             | -                               | -                              |
| 11 Deferred Tax Assets                        | -                             | -                               | -                              |
| 12 Working Capital                            | 74,147                        | (74,147)                        | -                              |
| 17 Original Cost Rate Base                    | <u>\$ 496,789</u>             | <u>\$ (351,579)</u>             | <u>\$ 145,210</u>              |

References:

Column (A): Company Schedule B-1,  
Column (B): Schedule MJR-4  
Column (C): Column (A) + Column (B)

SUMMARY OF ORIGINAL COST RATE BASE ADJUSTMENTS

| LINE NO.                | ACCT. NO.                              | DESCRIPTION                                 | [A]<br>COMPANY<br>AS FILED | [B]<br>Rec & Res Land<br>ADJ #1<br>Ref. Sch MJR-5 | [C]<br>Used & Useful<br>ADJ #2<br>Ref. Sch MJR-6 | [D]<br>Net Plant Additions<br>ADJ #3<br>Ref. Sch MJR-7 | [E]<br>Acc Depr<br>ADJ #4<br>Ref. Sch MJR-8 | [F]<br>Recognize CIAC<br>ADJ #5<br>Ref. Sch MJR-9 | [G]<br>Working Capital<br>ADJ #6<br>Ref. Sch MJR-10 | [H]<br>STAFF<br>ADJUSTED |
|-------------------------|--|---|----------------------------|---|--|--|---|---|---|--------------------------|
| <b>PLANT IN SERVICE</b> |  |   |                            |   |  |  |   |   |   |                          |
| 1                       | 301                                    | Organization                                | \$ -                       | \$ -  | \$ -   | \$ -   | \$ -  | \$ -  | \$ -  | -                        |
| 2                       | 302                                    | Franchises                                  | -                          | -   | -  | -  | -   | -   | -   | -                        |
| 3                       | 303                                    | Land and Land Rights                        | -                          | -   | -  | -  | -   | -   | -   | -                        |
| 4                       | 304                                    | Structures & Improvements                   | 35,665                     | (35,665)  | -  | -  | -   | -   | -   | -                        |
| 5                       | 305                                    | Collecting & Impounding Reservoirs          | 6,657                      | -   | -  | -  | -   | -   | -   | 6,657                    |
| 6                       | 306                                    | Lakes, Rivers, Other Intakes                | -                          | -   | -  | -  | -   | -   | -   | -                        |
| 7                       | 307                                    | Wells and Springs                           | -                          | -   | -  | -  | -   | -   | -   | -                        |
| 8                       | 308                                    | Infiltration Galleries and Tunnels          | 167,348                    | -   | -  | -  | -   | -   | -   | 167,348                  |
| 9                       | 309                                    | Supply Mains                                | -                          | -   | -  | -  | -   | -   | -   | -                        |
| 10                      | 310                                    | Power Generation Equipment                  | -                          | -   | -  | -  | -   | -   | -   | -                        |
| 11                      | 311                                    | Pumping Equipment                           | 26,588                     | -   | -  | -  | -   | -   | -   | 26,588                   |
| 12                      | 312                                    | Water Treatment Plant                       | -                          | -   | -  | -  | -   | -   | -   | -                        |
| 13                      | 320                                    | Distribution Reservoirs & Standpipes        | 141,632                    | -   | -  | -  | -   | -   | -   | 141,632                  |
| 14                      | 330                                    | Transmission & Distribution Mains           | 15,089                     | -   | -  | -  | -   | -   | -   | 15,089                   |
| 15                      | 331                                    | Services                                    | -                          | -   | 582,940  | -  | -   | -   | -   | 582,940                  |
| 16                      | 333                                    | Meters & Meter Installation                 | -                          | -   | 19,350   | -  | -   | -   | -   | 19,350                   |
| 17                      | 334                                    | Hydrants                                    | 70,842                     | -   | -  | (16,025)   | -   | -   | -   | 54,817                   |
| 18                      | 335                                    | Backflow Prevention Devices                 | -                          | -   | -  | -  | -   | -   | -   | -                        |
| 19                      | 336                                    | Other Plant & Misc. Equipment               | -                          | -   | -  | -  | -   | -   | -   | -                        |
| 20                      | 339                                    | Office Furniture & Equipment                | 59,315                     | -   | -  | 1,235  | -   | -   | -   | 60,550                   |
| 21                      | 340                                    | Transportation Equipment                    | 7,027                      | -   | -  | (926)  | -   | -   | -   | 6,101                    |
| 22                      | 341                                    | Stores Equipment                            | 71,461                     | -   | -  | -  | -   | -   | -   | 71,461                   |
| 23                      | 342                                    | Tools, Ship & Garage Equipment              | -                          | -   | -  | -  | -   | -   | -   | -                        |
| 24                      | 343                                    | Laboratory Equipment                        | -                          | -   | -  | -  | -   | -   | -   | -                        |
| 25                      | 344                                    | Power Operated Equipment                    | -                          | -   | -  | -  | -   | -   | -   | -                        |
| 26                      | 345                                    | Communication Equipment                     | -                          | -   | -  | -  | -   | -   | -   | -                        |
| 27                      | 346                                    | Miscellaneous Equipment                     | -                          | -   | 582  | -  | -   | -   | -   | 582                      |
| 28                      | 347                                    | Other Tangible Plant                        | -                          | -   | -  | -  | -   | -   | -   | -                        |
| 29                      | 348                                    |   | -                          | -   | -  | -  | -   | -   | -   | -                        |
| 30                      |  |   | 601,634                    | (35,665)  | 582,872  | (11,816)   | -   | -   | -   | 1,137,023                |
| 31                      |  |   |                            |   |  |  |   |   |   |                          |
| 32                      | Add:                                   |   |                            |   |  |  |   |   |   |                          |
| 33                      |  | Post Test Year Plant                        | -                          | -   | -  | -  | -   | -   | -   | -                        |
| 34                      |  | General Office Plant Allocation             | -                          | -   | -  | -  | -   | -   | -   | -                        |
| 35                      |  |   | -                          | -   | -  | -  | -   | -   | -   | -                        |
| 36                      | Less:                                  |   |                            |   |  |  |   |   |   |                          |
| 37                      |  |   | -                          | -   | -  | -  | -   | -   | -   | -                        |
| 38                      |  |   | -                          | -   | -  | -  | -   | -   | -   | -                        |
| 39                      | Total Plant in Service                 |   | \$ 601,634                 | \$ (35,665)                                       | \$ 582,872                                       | \$ (11,816)  | \$ 755,284                                  | \$ -  | \$ -  | \$ 1,137,023             |
| 40                      | Less: Accumulated Depreciation         |   | 139,712                    | -   | -  | -  | -   | -   | -   | 894,986                  |
| 41                      |  |   |                            |   |  |  |   |   |   |                          |
| 42                      | Net Plant in Service (L59 - L 60)      |   | \$ 461,922                 | \$ (35,665)                                       | \$ 582,872                                       | \$ (11,816)  | \$ (755,284)                                | \$ -  | \$ -  | \$ 242,027               |
| 43                      | LESS:                                  |   |                            |   |  |  |   |   |   |                          |
| 44                      |  | Contributions in Aid of Construction (CIAC) | -                          | -   | -  | -  | -   | -   | -   | -                        |
| 45                      | Less: Accumulated Amortization         |   | -                          | -   | -  | -  | -   | -   | -   | -                        |
| 46                      | Net CIAC (L25 - L28)                   |   | -                          | -   | -  | -  | -   | -   | -   | -                        |
| 47                      | Advances in Aid of Construction (AIAC) |   | 21,110                     | -   | -  | -  | -   | 76,247  | -   | 76,247                   |
| 48                      | Customer Deposits                      |   | 18,170                     | -   | -  | -  | -   | 18,710  | -   | 18,710                   |
| 49                      | Deferred Tax Liabilities               |   | -                          | -   | -  | -  | -   | 57,537  | -   | 57,537                   |
| 50                      |  |   | -                          | -   | -  | -  | -   | -   | -   | -                        |
| 51                      | ADD:                                   |   |                            |   |  |  |   |   |   |                          |
| 52                      |  | Unamortized Finance Charges                 | -                          | -   | -  | -  | -   | -   | -   | -                        |
| 53                      | Deferred Tax Assets                    |   | -                          | -   | -  | -  | -   | -   | -   | -                        |
| 54                      | Working Capital                        |   | 74,147                     | -   | -  | -  | -   | -   | (74,147)  | -                        |
| 55                      |  |   |                            |   |  |  |   |   |   |                          |
| 56                      | Original Cost Rate Base                |   | \$ 496,789                 | \$ (35,665)                                       | \$ 582,872                                       | \$ (11,816)  | \$ (755,284)                                | \$ (57,537)                                       | \$ (74,147)   | \$ 145,210               |

CORDES LAKES WATER COMPANY  
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Test Year Ended December 31, 2011

Surrebuttal MJR - 5

RATE BASE ADJUSTMENT #1 - REMOVE NON-USED AND USEFUL LAND

| Line<br>No. | DESCRIPTION | [A]<br>COMPANY<br>PROPOSED | [B]<br>STAFF<br>ADJUSTMENTS | [C]<br>STAFF<br>RECOMMENDED |
|-------------|-------------|----------------------------|-----------------------------|-----------------------------|
| 1           | Land        | \$ 35,665                  | \$ (35,665)                 | \$ -                        |

References:

Col [A]: Company Schedule B-1  
Col [B]: Col [C] - Col [A]  
Col [C]: MJR Testimony

CORDES LAKES WATER COMPANY  
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Surrebuttal MJR-6

RATE BASE ADJUSTMENT #2 REINSTATE USED AND USEFULL PLANT

| LINE<br>NO. | ACCT<br>NO. | DESCRIPTION                       | [A]<br>COMPANY<br>2006 Balance<br>AS<br>FILED | [B]<br>Decision No.<br>70170<br>STAFF<br>ADJUSTMENTS | [C]<br>STAFF<br>RECOMMENDED |
|-------------|-------------|-----------------------------------|---|--|-----------------------------|
|             |             |                                   |   |  |                             |
| 1           | 311         | Pumping Equipment                 | \$ 10,558                                     | \$ -   | \$ 10,558                   |
| 2           | 331         | Transmission & Distribution Mains | 9,444   | 562,940  | 572,384                     |
| 3           | 333         | Services                          | -   | 19,350   | 19,350                      |
| 4           | 347         | Miscellaneous Equipment           | -   | 582  | 582                         |
| 5           |             | Totals                            | <u>\$ 20,002</u>                              | <u>\$ 582,872</u>                                    | <u>\$ 602,874</u>           |

[A]: Company Schedule E-5 and Detail 11/8/2012

[B]: Col [C] - Col [A]

[C]:MJR Testimony

CORDES LAKES WATER COMPANY  
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Surrebuttal MJR-7

**RATE BASE ADJUSTMENT #3 NET PLANT ADDITIONS**

| LINE<br>NO. | ACCT<br>NO. | DESCRIPTION                       | [A]<br>COMPANY<br>Additions<br>11/8/2012 | [B]<br>STAFF<br>ADJUSTMENTS | [C]<br>STAFF<br>RECOMMENDED |
|-------------|-------------|-----------------------------------|--|-----------------------------|-----------------------------|
|             |             |                                   |  |                             |                             |
| 1           | 331         | Transmission & Distribution Mains | \$ 5,655                                 | \$ 3,898                    | \$ 9,553                    |
| 2           | 334         | Meters & Meter Installation       | 35,253                                   | (16,025)                    | 19,228                      |
| 3           | 339         | Other Plant & Misc. Equipment     | 5,166                                    | 1,235                       | 6,401                       |
| 4           | 340         | Office Furniture & Equipment      | 2,537                                    | (926)                       | 1,611                       |
| 5           |             | Totals                            | <u>\$ 48,611</u>                         | <u>\$ (11,818)</u>          | <u>\$ 36,793</u>            |

[A]: Company Schedule E-5 and Detail provided 11/8/2012

[B]: Col [C] - Col [A]

[C]:MJR Testimony

CORDES LAKES WATER COMPANY  
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Surrebuttal MJR-8

RATE BASE ADJUSTMENT #4 - ACCUMULATED DEPRECIATION

| LINE<br>NO. | DESCRIPTION              | [A]<br>COMPANY<br>PROPOSED | [B]<br>STAFF<br>ADJUSTMENTS | [C]<br>STAFF<br>RECOMMENDED |
|-------------|--------------------------|----------------------------|-----------------------------|-----------------------------|
| 1           | Accumulated Depreciation | <u>\$ 139,712</u>          | <u>\$ 755,284</u>           | <u>\$ 894,996</u>           |

References:

Col [A]: Company Schedule B-1

Col [B]: Col [C] - Col [A]

Col [C]: MJR Testimony

CORDES LAKES WATER COMPANY  
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Surrebuttal MJR-9

**RATE BASE ADJUSTMENT #5 - CIAC AND ACCUMULATED AMORTIZATION OF CIAC**

| LINE<br>NO. | DESCRIPTION                          | [A]<br>COMPANY<br>PROPOSED | [B]<br>STAFF<br>ADJUSTMENTS | [C]<br>STAFF<br>RECOMMENDED |
|-------------|--------------------------------------|----------------------------|-----------------------------|-----------------------------|
| 1           | Contributions in aid of construction | \$ -                       | \$ 76,247                   | \$ 76,247                   |
| 2           | Accumulated Amortization of CIAC     | \$ -                       | \$ 18,710                   | \$ 18,710                   |

References:

Col [A]: Company Schedule B-1

Col [B]: Col [C] - Col [A]

Col [C]: Decision 70170



CORDES LAKES WATER COMPANY  
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Test Year Ended December 31, 2011

Surrebuttal MJR-10

**RATE BASE ADJUSTMENT #6 - WORKING CAPITAL ALLOWANCE**

| LINE<br>NO. | DESCRIPTION               | [A]<br>COMPANY<br>PROPOSED | [B]<br>STAFF<br>ADJUSTMENTS | [C]<br>STAFF<br>RECOMMENDED |
|-------------|---------------------------|----------------------------|-----------------------------|-----------------------------|
| 1           | Working Capital Allowance | \$ 74,147                  | \$ (74,147)                 | \$ -                        |

References:

Col [A]: Company Schedule B-1

Col [B]: Col [C] - Col [A]

Col [C]: MJR Testimony

OPERATING INCOME STATEMENT - ADJUSTED TEST YEAR AND STAFF RECOMMENDED

Surrebuttal MJR-11

| LINE NO. | DESCRIPTION                                   | [A]<br>COMPANY<br>ADJUSTED<br>TEST YEAR<br>AS FILED | [B]<br>STAFF<br>TEST YEAR<br>ADJUSTMENTS | [C]<br>STAFF<br>TEST YEAR<br>AS<br>ADJUSTED | [D]<br>STAFF<br>PROPOSED<br>CHANGES | [E]<br>STAFF<br>RECOMMENDED |
|----------|---|---|--|---|-------------------------------------|-----------------------------|
| 1        | <u>REVENUES:</u>                              |   |  |   |                                     |                             |
| 2        | Metered Water Sales                           | \$ 403,353  | \$ 9,093                                 | \$ 412,446                                  | \$ 21,274                           | \$ 433,720                  |
| 3        | Received for Contract Labor                   | 167,692   | (167,692)                                | -   | -                                   | -                           |
| 4        | Miscellaneous Revenue                         | 640   | 7,450                                    | 8,090                                       | -                                   | 8,090                       |
| 5        | <b>Total Operating Revenues</b>               | <b>\$ 571,685</b>                                   | <b>\$ (151,149)</b>                      | <b>\$ 420,536</b>                           | <b>\$ 21,274</b>                    | <b>\$ 441,810</b>           |
| 6        | <u>OPERATING EXPENSES:</u>                    |   |  |   |                                     |                             |
| 7        | Payroll                                       | \$ 309,095  | \$ (167,692)                             | \$ 141,403                                  | \$ -                                | \$ 141,403                  |
| 10       | Contract Labor                                | 10,312  | -  | 10,312                                      | -                                   | 10,312                      |
| 11       | Employee Benefits                             | 29,422  | -  | 29,422                                      | -                                   | 29,422                      |
| 13       | Purchased Power                               | 31,723  | -  | 31,723                                      | -                                   | 31,723                      |
| 14       | Repairs and Maintenance                       | 12,650  | 1,012                                    | 13,662                                      | -                                   | 13,662                      |
| 15       | Office Supplies and Expense                   | 14,491  | -  | 14,491                                      | -                                   | 14,491                      |
| 16       | Outside Services - Accounting                 | 3,660   | 6,340                                    | 10,000                                      | -                                   | 10,000                      |
| 17       | Outside Services - Billing Services           | 24,118  | -  | 24,118                                      | -                                   | 24,118                      |
| 18       | Outside Services - Computer Programming       | 3,511   | -  | 3,511                                       | -                                   | 3,511                       |
| 19       | Water Testing                                 | 1,806   | 4,052                                    | 5,858                                       | -                                   | 5,858                       |
| 20       | Rents   | 28,150  | -  | 28,150                                      | -                                   | 28,150                      |
| 21       | Transportation Expenses                       | 8,995   | -  | 8,995                                       | -                                   | 8,995                       |
| 22       | Insurance - General Liability                 | 33,033  | -  | 33,033                                      | -                                   | 33,033                      |
| 23       | Insurance - Health and Life                   | 14,936  | -  | 14,936                                      | -                                   | 14,936                      |
| 24       | Rate Case Expense                             | -   | 6,000                                    | 6,000                                       | -                                   | 6,000                       |
| 25       | Regulatory Expense                            | -   | -  | -   | -                                   | -                           |
| 26       | Misc Expense - Permits                        | 2,000   | -  | 2,000                                       | -                                   | 2,000                       |
| 27       | Misc Expense - Travel                         | -   | -  | -   | -                                   | -                           |
| 28       | Misc. Expenses - Utilities except Electricity | 3,391   | -  | 3,391                                       | -                                   | 3,391                       |
| 29       | Misc. Expenses - Bank Charges                 | 1,304   | 1,934                                    | 3,238                                       | 98                                  | 3,336                       |
| 30       | Misc. Expenses - Payroll Services             | 859   | -  | 859   | -                                   | 859                         |
| 31       | Depreciation Expense                          | 37,195  | (22,162)                                 | 15,033                                      | -                                   | 15,033                      |
| 32       | Payroll Taxes                                 | 175   | -  | 175   | -                                   | 175                         |
| 33       | Taxes other than Income (Sales Tax)           | -   | -  | -   | -                                   | -                           |
| 34       | Property Taxes                                | 18,187  | 5,242                                    | 23,429                                      | 396                                 | 23,825                      |
| 35       | Income Tax                                    | 45  | (935)                                    | (890)                                       | 4,348                               | 3,458                       |
| 36       | Interest Income                               | -   | -  | -   | -                                   | -                           |
| 37       | Interest Expense                              | -   | 1,050                                    | 1,050                                       | -                                   | 1,050                       |
| 38       |   |   |  |   |                                     |                             |
| 39       | <b>Total Operating Expenses</b>               | <b>\$ 589,058</b>                                   | <b>\$ (165,159)</b>                      | <b>\$ 423,899</b>                           | <b>\$ 4,842</b>                     | <b>\$ 428,741</b>           |
| 40       | <b>Operating Income (Loss)</b>                | <b>\$ (17,373)</b>                                  | <b>\$ 14,010</b>                         | <b>\$ (3,363)</b>                           | <b>\$ 16,432</b>                    | <b>\$ 13,069</b>            |

References:

Column (A): Company Revised Schedule E-2, 11/8/2012  
Column (B): Schedule Surrebuttal MJR-12  
Column (C): Column (A) + Column (B)  
Column (D): Surrebuttal Schedules MJR-1 and MJR-2  
Column (E): Column (C) + Column (D)

SUMMARY OF OPERATING INCOME STATEMENT ADJUSTMENTS - TEST YEAR

| LINE NO. | DESCRIPTION                                  | (A) COMPANY AS FILED 9/24/2012 | (B) Contract Labor ADJ #1 Ref: Sch MUR-13 | (C) Repairs & Maint ADJ #2 Ref: Sch MUR-14 | (D) Melated Rev ADJ #3 Ref: Sch MUR-15 | (E) Dep. Exp. ADJ #4 Ref: Sch MUR-16 | (F) Prop. Tax ADJ #5 Ref: Sch MUR-17 | (G) Inc. Tax ADJ #6 Ref: Sch MUR-18 | (H) Water Treating ADJ #7 Ref: Sch MUR-19 | (I) Un-melated Raw ADJ #8 Ref: Sch MUR-20 | (J) Customer Dep ADJ #9 Ref: Sch MUR-21 | (K) Rate Case Expense ADJ #10 Ref: Sch MUR-22 | (L) Outside Acids Svcs ADJ #11 Ref: Sch MUR-23 | (M) Bad Debt ADJ #12 Ref: Sch MUR-24 | IOI STAFF ADJUSTED |
|----------|--|--------------------------------|---|--|--|--------------------------------------|--------------------------------------|-------------------------------------|---|---|---|---|--|--------------------------------------|--------------------|
| 1        | REVENUES:                                    |                                |   |  |  |                                      |                                      |                                     |   |   |   |   |  |                                      |                    |
| 2        | Melated Revenue                              | \$ 403,353                     |   |  | \$ 9,093                               |                                      |                                      |                                     |   |   |   |   |  |                                      | \$ 412,446         |
| 3        | Recycled for Contract Labor                  | \$ 167,692                     | (167,692)                                 |  |  |                                      |                                      |                                     |   |   |   |   |  |                                      |                    |
| 4        | Other Water Revenue                          | \$ 840                         |   |  |  |                                      |                                      |                                     |   |   |   |   |  |                                      |                    |
| 5        | Total Operating Revenues                     | \$ 571,885                     | \$ (167,692)                              |  | \$ 9,093                               |                                      |                                      |                                     |   |   |   |   |  |                                      | \$ 414,286         |
| 6        | OPERATING EXPENSES:                          |                                |   |  |  |                                      |                                      |                                     |   |   |   |   |  |                                      |                    |
| 7        | Contract Labor                               | \$ 306,095                     | (167,692)                                 |  |  |                                      |                                      |                                     |   |   |   |   |  |                                      | \$ 138,403         |
| 8        | Employee Benefits                            | 10,312                         |   |  |  |                                      |                                      |                                     |   |   |   |   |  |                                      | 10,312             |
| 9        | Purchased Power                              | 29,422                         |   |  |  |                                      |                                      |                                     |   |   |   |   |  |                                      | 29,422             |
| 10       | Repairs and Maintenance                      | 31,723                         |   |  |  |                                      |                                      |                                     |   |   |   |   |  |                                      | 31,723             |
| 11       | Outside Services - Accounting                | 12,480                         |   | 1,012                                      |  |                                      |                                      |                                     |   |   |   |   |  |                                      | 13,492             |
| 12       | Outside Services - Billing                   | 14,850                         |   |  |  |                                      |                                      |                                     |   |   |   |   |  |                                      | 14,850             |
| 13       | Outside Services - Computer Programming      | 3,950                          |   |  |  |                                      |                                      |                                     |   |   |   |   |  |                                      | 3,950              |
| 14       | Outside Services - Consulting                | 24,118                         |   |  |  |                                      |                                      |                                     |   |   |   |   |  |                                      | 24,118             |
| 15       | Outside Services - Electrical                | 3,511                          |   |  |  |                                      |                                      |                                     |   |   |   |   |  |                                      | 3,511              |
| 16       | Water Testing                                | 1,858                          |   |  |  |                                      |                                      |                                     |   |   |   |   |  |                                      | 1,858              |
| 17       | Transportation Expenses                      | 28,535                         |   |  |  |                                      |                                      |                                     |   |   |   |   |  |                                      | 28,535             |
| 18       | Medical Insurance                            | 33,033                         |   |  |  |                                      |                                      |                                     |   |   |   |   |  |                                      | 33,033             |
| 19       | Liability Insurance                          | 14,836                         |   |  |  |                                      |                                      |                                     |   |   |   |   |  |                                      | 14,836             |
| 20       | Rate Case Expense                            |                                |   |  |  |                                      |                                      |                                     |   |   |   | 6,000   |  |                                      | 6,000              |
| 21       | Regulatory Expense                           |                                |   |  |  |                                      |                                      |                                     |   |   |   |   |  |                                      |                    |
| 22       | Contractual Obligations                      | 2,000                          |   |  |  |                                      |                                      |                                     |   |   |   |   |  |                                      | 2,000              |
| 23       | Miscellaneous - Travel                       |                                |   |  |  |                                      |                                      |                                     |   |   |   |   |  |                                      |                    |
| 24       | Miscellaneous - Utilities except Electricity | 3,391                          |   |  |  |                                      |                                      |                                     |   |   |   |   |  |                                      | 3,391              |
| 25       | Miscellaneous - Bank Charges                 | 1,304                          |   |  |  |                                      |                                      |                                     |   |   |   |   |  |                                      | 1,304              |
| 26       | Miscellaneous - Payroll Services             | 859                            |   |  |  |                                      |                                      |                                     |   |   |   |   |  |                                      | 859                |
| 27       | Miscellaneous - Other                        | 37,175                         |   |  |  |                                      |                                      |                                     |   |   |   |   |  |                                      | 37,175             |
| 28       | Payroll Taxes                                | 175                            |   |  |  |                                      |                                      |                                     |   |   |   |   |  |                                      | 175                |
| 29       | Taxes other than Income (Sales Tax)          |                                |   |  |  |                                      |                                      |                                     |   |   |   |   |  |                                      |                    |
| 30       | Property Taxes                               | 16,187                         |   |  |  |                                      |                                      |                                     |   |   |   |   |  |                                      | 16,187             |
| 31       | Income Tax                                   | 45                             |   |  |  |                                      |                                      |                                     |   |   |   |   |  |                                      | 45                 |
| 32       | Interest Expense                             |                                |   |  |  |                                      |                                      |                                     |   |   |   |   |  |                                      |                    |
| 33       | Total Operating Expenses                     | \$ 566,056                     | (167,692)                                 | \$ 1,012                                   | \$ 9,093                               | \$ (22,162)                          | \$ 5,242                             | \$ (935)                            | \$ 4,052                                  | \$ 7,450                                  | \$ 1,050                                | \$ 6,000                                      | \$ 6,340                                       | \$ 1,834                             | \$ 423,889         |
| 34       | Operating Income (Loss)                      | \$ (17,171)                    |   | \$ (1,012)                                 | \$ 9,093                               | \$ 22,162                            | \$ (6,242)                           | \$ 935                              | \$ (4,052)                                | \$ 7,450                                  | \$ (1,050)                              | \$ (6,000)                                    | \$ (6,340)                                     | \$ (1,834)                           | \$ (3,355)         |

Refer to:

Column (A): Company Revised Schedule E-2, 1/16/2012

CORDES LAKES WATER COMPANY  
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Surrebuttal MJR-13

OPERATING INCOME ADJUSTMENT #1 - REMOVE NON-UTILITY REVENUES AND EXPENSES FOR CONTRACT LABOR

| LINE<br>NO. | DESCRIPTION             | [A]<br>COMPANY<br>PROPOSED | [B]<br>STAFF<br>ADJUSTMENTS | [C]<br>STAFF<br>RECOMMENDED |
|-------------|-------------------------|----------------------------|-----------------------------|-----------------------------|
| 1           | Contract Labor Revenue  | \$ 167,692                 | \$ (167,692)                | \$ -                        |
| 2           | Payroll                 | \$ 167,692                 | (167,692)                   | \$ -                        |
| 3           | Operating Income Affect | \$ -                       | \$ -                        | \$ -                        |

References:

Col [A]: Company Schedule E-2

Col [B]: Col [C] - Col [A]

Col [C]: MJR Testimony

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Surrebuttal MJR-14

OPERATING INCOME ADJUSTMENT #2 - NORMALIZATION OF REPAIRS & MAINTENANCE EXPENSES

| LINE<br>NO. | DESCRIPTION                                       | [A]<br>COMPANY<br>PROPOSED | [B]<br>STAFF<br>ADJUSTMENTS | [C]<br>STAFF<br>RECOMMENDED |
|-------------|---|----------------------------|-----------------------------|-----------------------------|
| 1           | Repairs & Maintenance                             | \$ 12,650                  | \$ 1,012                    | \$ 13,662                   |
| 2           | Repairs & Maintenance - Company's Test Year: 2011 |                            |                             | \$ 12,650                   |
| 3           | Repairs & Maintenance - 2010 Annual Stmt          |                            |                             | 17,221                      |
| 4           | Repairs & Maintenance - 2009 Annual Stmt          |                            |                             | 11,116                      |
| 5           | Repairs & Maintenance expenses, past three years  |                            |                             | \$ 40,987                   |
| 6           | Average Repair & Maintenance expense (line 5/3)   |                            |                             | \$ 13,662                   |

References:

Col [A]: Company Schedule C-1

Col [B]: Col [C] - Col [A]

Col [C]: Normalized Repairs & Maintenance Expense Col [C] L6.

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Surrebuttal MJR-15

OPERATING INCOME ADJUSTMENT #3 - METERED REVENUE

| LINE<br>NO. | DESCRIPTION     | [A]<br>COMPANY<br>PROPOSED | [B]<br>STAFF<br>ADJUSTMENTS | [C]<br>STAFF<br>RECOMMENDED |
|-------------|-----------------|----------------------------|-----------------------------|-----------------------------|
| 1           | Metered Revenue | \$ 403,353                 | \$ 9,093                    | \$ 412,446                  |

References:

Col [A]: Company Schedule E-2 Revised 9/24/2012

Col [B]: Col [C] - Col [A]

Col [C]: MJR Testimony

Bill Count Revenue

|                |                   |
|----------------|-------------------|
| 3/4 inch Meter | \$ 404,597        |
| 1 inch Meter   | 2,397             |
| 2 inch Meter   | 5,452             |
| Subtotal       | <u>\$ 412,446</u> |

OPERATING INCOME ADJUSTMENT #4 - DEPRECIATION EXPENSE

| Line No.                | ACCT NO. | DESCRIPTION  | [A]<br>AMOUNT | Depreciable Amount | [B]<br>Projected RATE | [C]<br>EXPENSE |
|-------------------------|----------|--|---------------|--------------------|-----------------------|----------------|
| <b>Plant In Service</b> |          |  |               |                    |                       |                |
| 1                       | 301      | Organization   | \$ -          | \$ -               | 0.00%                 | \$ -           |
| 2                       | 302      | Franchises   | -             | -                  | 0.00%                 | -              |
| 3                       | 303      | Land and Land Rights   | -             | -                  | 0.00%                 | -              |
| 4                       | 304      | Structures & Improvements  | 6,657         | 4,400              | 3.33%                 | 147            |
| 5                       | 305      | Collecting & Impounding Reservoirs   | -             | -                  | 2.50%                 | -              |
| 6                       | 306      | Lakes, Rivers, Other Intakes   | -             | -                  | 2.50%                 | -              |
| 7                       | 307      | Wells and Springs  | 167,348       | 151,979            | 3.33%                 | 5,061          |
| 8                       | 308      | Infiltration Galleries and Tunnels   | -             | -                  | 6.67%                 | -              |
| 9                       | 309      | Supply Mains   | -             | -                  | 2.00%                 | -              |
| 10                      | 310      | Power Generation Equipment   | -             | -                  | 5.00%                 | -              |
| 11                      | 311      | Pumping Equipment  | 26,588        | 16,030             | 12.50%                | 2,004          |
| 12                      | 320      | Water Treatment Plant  | -             | -                  | 3.33%                 | -              |
| 13                      | 330      | Distribution Reservoirs & Standpipes   | 141,632       | 94,458             | 2.22%                 | 2,097          |
| 14                      | 331      | Transmission & Distribution Mains  | 581,937       | 19,442             | 2.00%                 | 389            |
| 15                      | 333      | Services   | 19,350        | -                  | 3.33%                 | -              |
| 16                      | 334      | Meters & Meter Installation  | 54,817        | 47,078             | 8.33%                 | 3,922          |
| 17                      | 335      | Hydrants   | -             | -                  | 2.00%                 | -              |
| 18                      | 336      | Backflow Prevention Devices  | -             | -                  | 6.67%                 | -              |
| 19                      | 339      | Other Plant & Misc. Equipment  | 60,550        | 60,550             | 6.67%                 | 4,039          |
| 20                      | 340      | Office Furniture & Equipment   | 6,101         | 6,101              | 6.67%                 | 407            |
| 21                      | 341      | Transportation Equipment   | 71,461        | 2,412              | 20.00%                | 482            |
| 22                      | 342      | Stores Equipment   | -             | -                  | 4.00%                 | -              |
| 23                      | 343      | Tools, Ship & Garage Equipment   | -             | -                  | 5.00%                 | -              |
| 24                      | 344      | Laboratory Equipment   | -             | -                  | 10.00%                | -              |
| 25                      | 345      | Power Operated Equipment   | -             | -                  | 5.00%                 | -              |
| 26                      | 346      | Communication Equipment  | -             | -                  | 10.00%                | -              |
| 27                      | 347      | Miscellaneous Equipment  | 582           | -                  | 10.00%                | -              |
| 28                      | 348      | Other Tangible Plant   | -             | -                  | 0.00%                 | -              |
| 29                      |          | Subtotal General   | \$ 1,137,023  | \$ 402,450         |                       | \$ 18,547      |
| 30                      |          | Less: Non- depreciable Account(s) (L3)   | -             | -                  |                       | -              |
| 31                      |          | Depreciable Plant (L29-L30)  | \$ 1,137,023  | \$ 402,450         |                       |                |
| 32                      |          | Contributions-in-Aid-of-Construction (CIAC) Per Decision No. 54526 (1/28/1985) - Not Amortized | \$ 76,247     |                    |                       |                |
| 33                      |          | Composite Depreciation/Amortization Rate   | 4.61%         |                    |                       |                |
| 34                      |          | Less: Amortization of CIAC (L32 x L33)   |               |                    |                       | \$ 3,514       |
| 35                      |          | Depreciation Expense - STAFF [Col. (C), L29 - L34]   |               |                    |                       | \$ 15,033      |

| LINE NO. | DESCRIPTION          | [A]<br>COMPANY PROPOSED | [B]<br>STAFF ADJUSTMENT | [C]<br>STAFF RECOMMENDED |
|----------|----------------------|-------------------------|-------------------------|--------------------------|
| 36       | Depreciation Expense | \$ 37,195               | \$ (22,162)             | \$ 15,033                |

References:

Col [A]: MJR-4  
Col [B]: Decision No. 70170 and updated Plant Schedules  
Col [C]: MJR Testimony

CORDES LAKES WATER COMPANY  
Docket No. W-02060A-12-0356  
Test Year Ended December 31, 2011

Surrebuttal MJR-17

OPERATING INCOME ADJUSTMENT #5 - PROPERTY TAXES

| LINE<br>NO. | Property Tax Calculation  | (C)                  |                      |
|-------------|---|----------------------|----------------------|
|             |   | STAFF<br>AS ADJUSTED | STAFF<br>RECOMMENDED |
| 1           | Staff Adjusted Test Year Revenues - 2011                                  | \$ 420,536           | \$ 420,536           |
| 2           | Weight Factor   | 2                    | 2                    |
| 3           | Subtotal (Line 1 * Line 2)  | 841,073              | \$ 841,073           |
| 4           | Staff Recommended Revenue, Per Schedule MJR-1                             | 420,536              | \$ 441,810           |
| 5           | Subtotal (Line 4 + Line 5)  | 1,261,609            | 1,282,882            |
| 6           | Number of Years   | 3                    | 3                    |
| 7           | Three Year Average (Line 5 / Line 6)                                      | 420,536              | 427,627              |
| 8           | Department of Revenue Multiplier  | 2                    | 2                    |
| 9           | Revenue Base Value (Line 7 * Line 8)                                      | 841,073              | 855,255              |
| 10          | Plus: 10% of CWIP -   | -                    | -                    |
| 11          | Less: Net Book Value of Licensed Vehicles                                 | 2,171                | 2,171                |
| 12          | Full Cash Value (Line 9 + Line 10 - Line 11)                              | 838,902              | \$ 853,084           |
| 13          | Assessment Ratio  | 20.0%                | 20.0%                |
| 14          | Assessment Value (Line 12 * Line 13)                                      | 167,780              | \$ 170,617           |
| 15          | Composite Property Tax Rate   | 13.9638%             | 13.9638%             |
| 16          | Staff Test Year Adjusted Property Tax (Line 14 * Line 15)                 | \$ 23,429            | \$ -                 |
| 17          | Company Proposed Property Tax   | 18,187               |                      |
| 18          | Staff Test Year Adjustment (Line 16-Line 17)                              | \$ 5,242             |                      |
| 19          | Property Tax - Staff Recommended Revenue (Line 14 * Line 15)              |                      | \$ 23,825            |
| 20          | Staff Test Year Adjusted Property Tax Expense (Line 16)                   |                      | \$ 23,429            |
| 21          | Increase in Property Tax Expense Due to Increase in Revenue Requirement   |                      | \$ 396               |
| 22          | Increase to Property Tax Expense  |                      | \$ 396               |
| 23          | Increase in Revenue Requirement   |                      | 21,274               |
| 24          | Increase to Property Tax per Dollar Increase in Revenue (Line 22/Line 23) |                      | 1.861840%            |



CORDES LAKES WATER COMPANY  
Docket No. W-02060A-12-0356  
Test Year Ended December 31, 2011

Surrebuttal MJR-18

OPERATING INCOME ADJUSTMENT #6 - TEST YEAR INCOME TAXES

| LINE<br>NO. | DESCRIPTION        | [A]<br>COMPANY<br>PROPOSED | [B]<br>STAFF<br>ADJUSTMENTS | [C]<br>STAFF<br>RECOMMENDED |
|-------------|--------------------|----------------------------|-----------------------------|-----------------------------|
| 1           | Income Tax Expense | \$ 45                      | \$ (935)                    | \$ (890)                    |

References:

Col [A]: Company Schedule E-2 Revised 9/24/2012

Col [B]: Col [C] - Col [A]

Col [C]: Schedule MJR-2, Line 43

CORDES LAKES WATER COMPANY  
Docket No. W-02060A-12-0356  
Test Year Ended December 31, 2011

Surrebuttal MJR-19

OPERATING INCOME ADJUSTMENT #7 WATER TESTING

| LINE<br>NO. | DESCRIPTION           | [A]<br>COMPANY<br>PROPOSED | [B]<br>STAFF<br>ADJUSTMENTS | [C]<br>STAFF<br>RECOMMENDED |
|-------------|-----------------------|----------------------------|-----------------------------|-----------------------------|
| 1           | Water Testing Expense | \$ 1,806                   | \$ 4,052                    | \$ 5,858                    |

References:

Col [A]: Company Schedule E-2  
Col [B]: Col [C] - Col [A]  
Col [C]: Engineering Report

CORDES LAKES WATER COMPANY  
Docket No. W-02060A-12-0356  
Test Year Ended December 31, 2011

Surebuttal MJR-20

**OPERATING INCOME ADJUSTMENT #8 - NON-METERED REVENUE FEES**

| LINE |                          | [A]<br>COMPANY<br>PROPOSED<br>9/24/2012 | [B]<br>STAFF<br>ADJUSTMENTS | [C]<br>STAFF<br>RECOMMENDED |
|------|--------------------------|---|-----------------------------|-----------------------------|
| NO.  | DESCRIPTION              |   |                             |                             |
| 1    | Misc Income Net          | \$ 640                                  | \$ (640)                    | \$ -                        |
| 2    | Establishment            | -                                       | \$ 6,825                    | 6,825                       |
| 3    | Reconnection             | -                                       | \$ 1,045                    | 1,045                       |
| 4    | After Hours Reconnection | -                                       | \$ 150                      | 150                         |
| 5    | Re-Establishment         | -                                       | \$ 70                       | 70                          |
| 6    |                          | \$ 640                                  | \$ 7,450                    | \$ 8,090                    |

|                          |                                 |
|--------------------------|---------------------------------|
|                          | COMPANY<br>Revised<br>8/17/2012 |
| Misc Income Net          | \$ -                            |
| Establishment            | 6,825                           |
| Reconnection             | 1,045                           |
| After Hours Reconnection | 150                             |
| Re-Establishment         | 70                              |

References:

Col [A]: Company Schedule A-2 (B)  
Col [B]: Col [C] - Col [A]  
Col [C]: Schedule Column A plus Column B

CORDES LAKES WATER COMPANY  
Docket No. W-02060A-12-0356  
Test Year Ended December 31, 2011

Surrebuttal MJR-21

**OPERATING INCOME ADJUSTMENT #9 - INTEREST ON CUSTOMER DEPOSITS**

| LINE       |                               | [A]                         | [B]                          | [C]                          |
|------------|-------------------------------|-----------------------------|------------------------------|------------------------------|
| <u>NO.</u> | <u>DESCRIPTION</u>            | <u>COMPANY<br/>PROPOSED</u> | <u>STAFF<br/>ADJUSTMENTS</u> | <u>STAFF<br/>RECOMMENDED</u> |
| 1          | Interest on Customer Deposits | <u>\$ -</u>                 | <u>\$ 1,050</u>              | <u>\$ 1,050</u>              |

References:

Col [A]: Company Schedule A-2 (B)

Col [B]: Col [C] - Col [A]

Col [C]: MJR Testimony

CORDES LAKES WATER COMPANY  
Docket No. W-02060A-12-0356  
Test Year Ended December 31, 2011

Surrebuttal MJR-22

OPERATING INCOME ADJUSTMENT #10 - RATE CASE EXPENSE

| LINE       |                    | [A]                         | [B]                          | [C]                          |
|------------|--------------------|-----------------------------|------------------------------|------------------------------|
| <u>NO.</u> | <u>DESCRIPTION</u> | <u>COMPANY<br/>PROPOSED</u> | <u>STAFF<br/>ADJUSTMENTS</u> | <u>STAFF<br/>RECOMMENDED</u> |
| 1          | Rate Case Expense  | <u>\$ -</u>                 | <u>\$ 6,000</u>              | <u>\$ 6,000</u>              |

References:

Col [A]: Company Schedule E-2

Col [B]: Col [C] - Col [A]

Col [C]: MJR Surrebuttal Testimony

CORDES LAKES WATER COMPANY  
Docket No. W-02060A-12-0356  
Test Year Ended December 31, 2011

Surrebuttal MJR-23

**OPERATING INCOME ADJUSTMENT #11 - OUTSIDE ACCOUNTING SERVICES**

| LINE       |                               | [A]                               | [B]                                | [C]                                |
|------------|-------------------------------|-----------------------------------|------------------------------------|------------------------------------|
| <u>NO.</u> | <u>DESCRIPTION</u>            | <u>COMPANY</u><br><u>PROPOSED</u> | <u>STAFF</u><br><u>ADJUSTMENTS</u> | <u>STAFF</u><br><u>RECOMMENDED</u> |
| 1          | Outside Services - Accounting | <u>\$ 3,660</u>                   | <u>\$ 6,340</u>                    | <u>\$ 10,000</u>                   |

References:

Col [A]: Company Schedule E-2

Col [B]: Col [C] - Col [A]

Col [C]: MJR Surrebuttal Testimony

OPERATING INCOME ADJUSTMENT #12 - BAD DEBT EXPENSE

| LINE |                              | [A]                 | [B]                  | [C]                  |
|------|------------------------------|---------------------|----------------------|----------------------|
| NO.  | DESCRIPTION                  | COMPANY<br>PROPOSED | STAFF<br>ADJUSTMENTS | STAFF<br>RECOMMENDED |
| 1    | Misc. Expense - Bank Charges | \$ 1,304            | \$ -                 | \$ 1,304             |
| 2    | Bad Debt Expense             | -                   | \$ 1,934             | 1,934                |
| 3    | Total                        | <u>\$ 1,304</u>     | <u>\$ 1,934</u>      | <u>\$ 3,238</u>      |
|      | \$ 43 Write-off in 2007      |                     |                      |                      |
|      | 1,488 Write-off in 2008      |                     |                      |                      |
|      | 4,079 Write-off in 2009      |                     |                      |                      |
|      | 2,048 Write-off in 2010      |                     |                      |                      |
|      | <u>\$ 7,658</u>              |                     |                      |                      |
|      | 4.00 Years                   |                     |                      |                      |
|      | <u>\$ 1,914</u>              |                     |                      |                      |
|      | \$ 420,536 Test Year Revenue |                     |                      |                      |
|      | 0.46% Average write-off rate |                     |                      |                      |

References:

Col [A]: Company Schedule E-2

Col [B]: Col [C] - Col [A]

Col [C]: MJR Surrebuttal Testimony

# RATE DESIGN

| Monthly Usage Charge               | Present  | -Proposed Rates- |          |
|------------------------------------|----------|------------------|----------|
|                                    | Rates    | Company          | Staff    |
| 5/8" x 3/4" Meter                  | N/A      | N/A              | N/A      |
| 3/4" Meter                         | \$ 11.00 | \$ 13.50         | \$ 11.50 |
| 1" Meter                           | 19.50    | 24.50            | 20.00    |
| 1 1/2" Meter                       | 39.00    | 48.75            | 39.00    |
| 2" Meter                           | 62.50    | 78.00            | 62.50    |
| 3" Meter                           | 125.00   | 156.00           | 125.00   |
| 4" Meter                           | 220.00   | 275.00           | 192.50   |
| 6" Meter                           | 390.00   | 485.00           | 385.00   |
| 8" Meter                           | N/A      | N/A              | N/A      |
| 10" Meter                          | N/A      | N/A              | N/A      |
| 12" Meter                          | N/A      | N/A              | N/A      |
| Gallons Included in Minimum        | 0        | 0                | 0        |
| <u>Commodity Rate Charge</u>       |          |                  |          |
| <u>3/4" Meter</u>                  |          |                  |          |
| <u>Company</u>                     |          |                  |          |
| Tier 1 From 0 to 3,000 gallons     | 2.80     | 3.30             |          |
| Tier 2 From 3,001 to 8,000 gallons | 4.30     | 5.25             |          |
| Tier 3 Over 8,000 gallons          | 5.00     | 6.00             |          |
| <u>Staff</u>                       |          |                  |          |
| Tier 1 From 0 to 3,000 gallons     |          |                  | 2.80     |
| Tier 2 From 3,001 to 8,000 gallons |          |                  | 4.20     |
| Tier 3 Over 8,000 gallons          |          |                  | 6.45     |
| <u>1" Meter</u>                    |          |                  |          |
| <u>Company</u>                     |          |                  |          |
| Tier 1 From 0 to 18,000 gallons    | 4.30     | 5.25             |          |
| Tier 2 Over 18,000 gallons         | 5.00     | 6.00             |          |
| <u>Staff</u>                       |          |                  |          |
| Tier 1 From 0 to 10,000 gallons    |          |                  | 4.20     |
| Tier 2 Over 10,000 gallons         |          |                  | 6.45     |
| <u>1 1/2" Meter</u>                |          |                  |          |
| <u>Company</u>                     |          |                  |          |
| Tier 1 From 0 to 43,500 gallons    | 4.30     | 5.25             |          |
| Tier 2 Over 43,500 gallons         | 5.00     | 6.00             |          |
| <u>Staff</u>                       |          |                  |          |
| Tier 1 From 0 to 17,000 gallons    |          |                  | 4.20     |
| Tier 2 Over 17,000 gallons         |          |                  | 6.45     |
| <u>2" Meter</u>                    |          |                  |          |
| <u>Company</u>                     |          |                  |          |
| Tier 1 From 0 to 75,000 gallons    | 4.30     | 5.25             |          |
| Tier 2 Over 75,000 gallons         | 5.00     | 6.00             |          |
| <u>Staff</u>                       |          |                  |          |
| Tier 1 From 0 to 26,000 gallons    |          |                  | 4.20     |
| Tier 2 Over 26,000 gallons         |          |                  | 6.45     |
| <u>3" Meter</u>                    |          |                  |          |
| <u>Company</u>                     |          |                  |          |
| Tier 1 From 0 to 160,000 gallons   | 4.30     | 5.25             |          |
| Tier 2 Over 160,000 gallons        | 5.00     | 6.00             |          |
| <u>Staff</u>                       |          |                  |          |
| Tier 1 From 0 to 50,000 gallons    |          |                  | 4.20     |
| Tier 2 Over 50,000 gallons         |          |                  | 6.45     |
| <u>4" Meter</u>                    |          |                  |          |
| <u>Company</u>                     |          |                  |          |
| Tier 1 From 0 to 290,000 gallons   | 4.30     | 5.25             |          |
| Tier 2 Over 290,000 gallons        | 5.00     | 6.00             |          |
| <u>Staff</u>                       |          |                  |          |
| Tier 1 From 0 to 75,000 gallons    |          |                  | 4.20     |
| Tier 2 Over 75,000 gallons         |          |                  | 6.45     |
| <u>6" Meter</u>                    |          |                  |          |
| <u>Company</u>                     |          |                  |          |
| Tier 1 From 0 to 530,000 gallons   | 4.30     | 5.25             |          |
| Tier 2 Over 530,000 gallons        | 5.00     | 6.00             |          |
| <u>Staff</u>                       |          |                  |          |
| Tier 1 From 0 to 150,000 gallons   |          |                  | 4.20     |
| Tier 2 Over 150,000 gallons        |          |                  | 6.45     |



**RATE DESIGN**

Service Line and Meter Installation Charges

|                   | N/T      | N/T           | Service Line | Meter Installation | Total    |
|-------------------|----------|---------------|--------------|--------------------|----------|
|                   |          |               | N/T          | N/T                | N/T      |
| 5/8" x 3/4" Meter |          |               |              |                    |          |
| 3/4" Meter        | 520.00   | Same as Staff | 426.00       | 198.00             | 624.00   |
| 1" Meter          | 610.00   | Same as Staff | 486.00       | 246.00             | 732.00   |
| 1 1/2" Meter      | 855.00   | Same as Staff | 528.00       | 498.00             | 1,026.00 |
| 2" Meter          | 1,515.00 | Same as Staff | 720.00       | 1,098.00           | 1,818.00 |
| 3" Meter          | 2,195.00 | Same as Staff | 930.00       | 1,764.00           | 2,694.00 |
| 4" Meter          | 3,360.00 | Same as Staff | 1,332.00     | 2,700.00           | 4,032.00 |
| 6" Meter          | 6,115.00 | Same as Staff | 2,000.00     | 5,350.00           | 7,350.00 |

Service Charges

|   |         |         |         |
|---|---------|---------|---------|
| Establishment                                 | \$25.00 | \$30.00 | \$30.00 |
| Establishment (After Hours)                   | \$35.00 | \$40.00 | NT      |
| Reconnection (Delinquent)                     | \$15.00 | \$20.00 | \$20.00 |
| Reconnection (Delinquent) After Hours         | \$25.00 | \$30.00 | NT      |
| NSF Check                                     | \$12.50 | \$15.00 | \$15.00 |
| Meter Re-Read (If Correct)                    | \$10.00 | \$12.00 | \$12.00 |
| Meter Test (If Correct)                       | \$25.00 | \$30.00 | \$30.00 |
| Deferred Payment (per Month)                  | 1.5%    | 1.5%    | ***     |
| Deposit Amount                                | *       | *       | *       |
| Deposit Interest                              | *       | *       | *       |
| Re-Establishment (Within 12 Months)           | **      | **      | **      |
| Late Fee (per Month)                          | 1.5%    | 1.5%    | ***     |
| Road Cutting or Boring                        | Cost    | Cost    | Cost    |
| After Hours Service Charge (Customer Request) | N/T     | N/T     | \$35.00 |

NT = No Tariff

Monthly Service Charge for Fire Sprinkler

|                 |        |        |      |
|-----------------|--------|--------|------|
| 4" or Smaller   | \$0.00 | \$0.00 | **** |
| 6"              | 0.00   | 0.00   | **** |
| 8"              | 0.00   | 0.00   | **** |
| 10"             | 0.00   | 0.00   | **** |
| Larger than 10" | 0.00   | 0.00   | **** |

\* Per Commission Rules (R14-2-403.B)

\*\* Months off system times the minimum (R14-2-403.D)

\*\*\* 1.5% on the unpaid balance per month

\*\*\*\* 2.00% of Monthly Minimum for a Comparable Sized Meter Connection, but no less than \$10.00 per month. The Service Charge for Fire Sprinklers is only applicable for service lines separate and distinct from the primary water service line.

CORDES LAKES WATER COMPANY  
Docket No. W-02060A-12-0356  
Test Year Ended December 31, 2011

Surrebuttal MJR-26

**TYPICAL BILL ANALYSIS**  
General Service 3/4 - Inch Meter

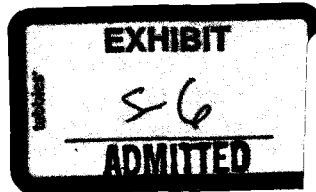
Average Number of Customers: 1,291

| <u>Company Proposed</u> | <u>Gallons</u> | <u>Present Rates</u> | <u>Proposed Rates</u> | <u>Dollar Increase</u> | <u>Percent Increase</u> |
|-------------------------|----------------|----------------------|-----------------------|------------------------|-------------------------|
| Average Usage           | 4,169          | \$24.42              | \$29.54               | \$5.11                 | 20.92%                  |
| Median Usage            | 3,088          | \$19.78              | \$23.86               | \$4.08                 | 20.65%                  |

| <u>Staff Recommend</u> |       |         |         |        |       |
|------------------------|-------|---------|---------|--------|-------|
| Average Usage          | 4,169 | \$24.42 | \$24.81 | \$0.38 | 1.57% |
| Median Usage           | 3,088 | \$19.78 | \$20.27 | \$0.49 | 2.48% |

Present & Proposed Rates (Without Taxes)  
General Service 3/4 - Inch Meter

| <u>Gallons Consumption</u> | <u>Present Rates</u> | <u>Company Proposed Rates</u> | <u>% Increase</u> | <u>Staff Proposed Rates</u> | <u>% Increase</u> |
|----------------------------|----------------------|-------------------------------|-------------------|-----------------------------|-------------------|
| 0                          | \$11.00              | \$13.50                       | 22.73%            | \$11.50                     | 4.55%             |
| 1,000                      | 13.80                | 16.80                         | 21.74%            | 14.30                       | 3.62%             |
| 2,000                      | 16.60                | 20.10                         | 21.08%            | 17.10                       | 3.01%             |
| 3,000                      | 19.40                | 23.40                         | 20.62%            | 19.90                       | 2.58%             |
| 4,000                      | 23.70                | 28.65                         | 20.89%            | 24.10                       | 1.69%             |
| 5,000                      | 28.00                | 33.90                         | 21.07%            | 28.30                       | 1.07%             |
| 6,000                      | 32.30                | 39.15                         | 21.21%            | 32.50                       | 0.62%             |
| 7,000                      | 36.60                | 44.40                         | 21.31%            | 36.70                       | 0.27%             |
| 8,000                      | 40.90                | 49.65                         | 21.39%            | 40.90                       | 0.00%             |
| 9,000                      | 45.90                | 55.65                         | 21.24%            | 47.35                       | 3.16%             |
| 10,000                     | 50.90                | 61.65                         | 21.12%            | 53.80                       | 5.70%             |
| 15,000                     | 75.90                | 91.65                         | 20.75%            | 86.05                       | 13.37%            |
| 20,000                     | 100.90               | 121.65                        | 20.56%            | 118.30                      | 17.24%            |
| 25,000                     | 125.90               | 151.65                        | 20.45%            | 150.55                      | 19.58%            |
| 50,000                     | 250.90               | 301.65                        | 20.23%            | 311.80                      | 24.27%            |
| 75,000                     | 375.90               | 451.65                        | 20.15%            | 473.05                      | 25.84%            |
| 100,000                    | 500.90               | 601.65                        | 20.11%            | 634.30                      | 26.63%            |
| 125,000                    | 625.90               | 751.65                        | 20.09%            | 795.54                      | 27.10%            |
| 150,000                    | 750.90               | 901.65                        | 20.08%            | 956.79                      | 27.42%            |
| 175,000                    | 875.90               | 1,051.65                      | 20.07%            | 1,118.04                    | 27.64%            |
| 200,000                    | 1,000.90             | 1,201.65                      | 20.06%            | 1,279.29                    | 27.81%            |



ORIGINAL

BEFORE THE ARIZONA CORPORATION

2013 JUL -8 A 11:43

AZ CORP COMMISSION  
DOCKET CONTROL

Arizona Corporation Commission  
DOCKETED

JUL 08 2013

DOCKETED BY [Signature]

COMMISSIONERS  
BOB STUMP - Chairman  
GARY PIERCE  
BRENDA BURNS  
BOB BURNS  
SUSAN BITTER SMITH

IN THE MATTER OF THE APPLICATION OF  
CORDES LAKES WATER COMPANY FOR  
APPROVAL OF A RATE INCREASE.

DOCKET NO. W-02060A-12-0356

**JOINT STIPULATION**

The Utilities Division ("Staff") of the Arizona Corporation Commission ("Commission") and Cordes Lakes Water Company ("Company") file this joint stipulation resolving several areas and final schedules that reflect those resolutions.

Prior to the evidentiary portion of the proceeding on June 13, 2013, the Company and Staff, at the suggestion of the Administrative Law Judge, entered into discussions to resolve certain issues that had arisen based on the prefiled testimony in this docket. Following these discussions, the parties indicated that they had reached a resolution on the issues which had arisen in the proceeding, and it was indicated that after a brief continuance a Joint Stipulation which addresses the relevant issues would be filed.

In summary, Staff and the Company agree to an increase in revenue of \$27,182 (6.46 percent) over test year revenue of \$420,536. Test year revenues result in a loss of \$6,213, and expenses of \$426,750. Staff and the Company agree to proposed revenues of \$447,718 and expenses of \$432,966 for an operating income of \$14,752 and a 9.0 percent rate of return on stipulated FVRB and OCRB of \$163,913. This level of revenue provides an operating margin of 3.3%. Recommended rates increase the typical 5 /8 x 3/4-inch meter residential water bill with a median usage of 3,088 by \$.90 (4.53 percent) from \$19.78 to \$20.67.

During the hearing that commenced on June 13, 2013, Staff placed into the record, certain areas of agreement between Staff and the Company. These areas are memorialized as follows:

...

1 **I. REVENUE REQUIREMENT AND RATE BASE.**

2 A. Post Test Year Plant: The Company and Staff agree to the inclusion into rate base of  
3 \$16,324.

4 B. Capitalization: Staff and the Company agree that Staff's rate base adjustment no. 3  
5 which originally totaled negative \$11,818 will be negative \$8,085 reflecting Staff's  
6 agreement to capitalize certain expenditures it previously considered to be expenses.

7 **II. OPERATING INCOME STATEMENT.**

8 A. Staff and the Company agree to Bad Debt of \$2,528 and a 1.2965 gross revenue  
9 conversion factor which includes an uncollectable component of 0.4745%.

10 B. Staff and the Company agree to an increase in Purchase Power Expense of \$917 to  
11 reflect the increase in APS' rates.

12 C. Outside Services Accounting: Staff and the Company agree to an adjustment of \$6,340  
13 to reflect the Company's procurement of outside accounting services.

14 **III. RATE DESIGN**

15 The Company and Staff agree to the rate design as reflected in the attached schedule.

16 **IV. COST OF CAPITAL.**

17 A. The Company and Staff agree to a return on equity of 9.0. The Company's capital  
18 structure is 100% equity.

19 **V. FINANCING.**

20 The Company has agreed to file an application for financing approval for certain  
21 improvements relating to water loss, in 6 months from the date of a Commission order in this matter.  
22 Staff and the Company agree that the Company may seek financing from a lender of its choice, on the  
23 condition that any interest rate assessed would be within 2% of the interest rate assessed by the Water  
24 Infrastructure Finance Authority. Staff and Company agree that the docket should be left open for the  
25 inclusion of a surcharge sufficient to provide a 1.50 Debt Service Coverage Ratio ("DSC"), which  
26 will be placed within the monthly minimum.

27 ...

28 ...

1 **VI. CC&N EXTENSION.**

2 Cordes Lakes is currently providing service to customers outside its Certificate of  
3 Convenience and Necessity ("CC&N") in the Southwest Quarter of the Northwest Quarter of Section  
4 24, Township 11 North, Range 2 East of the Gila and Salt River Base and Meridian, Yavapai County,  
5 Arizona. The Company agrees that it will file an application to extend its CC&N to include this area  
6 within 180 days of the date of a decision in this matter

7 **VII. ENGINEERING ISSUES.**

8 A. Staff recommends that the Company closely monitor its water system to ensure that  
9 pump over-cycling does not occur due to inadequate pressure tank capacity. The  
10 Company agrees that prior to filing its next rate case, it will review the sizing of its  
11 pressure tanks and file, with the Commission's Docket Control as a compliance item  
12 in this docket, the results of its review including actions the Company plans to take to  
13 prevent pump over-cycling.

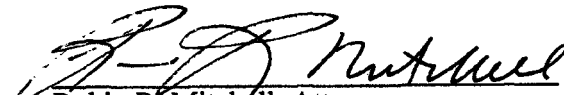
14 B. The Company agrees that it will file with Docket Control, as a compliance item in this  
15 docket and within 45 days of the effective date of a decision in this proceeding, at least  
16 five BMPs in the form of tariffs that substantially conform to the templates created by  
17 Staff for Commission's review and consideration.


18 **VIII. BOOKS AND RECORDS.**

19 The Company agrees that it will keep its books and records in accordance with the National  
20 Association of Regulatory Utility Commissioners Uniform System of Accounts.

21 The schedules reflecting the foregoing are attached.

22 **RESPECTFULLY SUBMITTED** this 8th day of July, 2013.

23  
24  
25   
26 Robin R. Mitchell, Attorney  
27 Legal Division  
28 Arizona Corporation Commission  
1200 West Washington Street  
Phoenix, Arizona 85007  
(602) 542-3402

 <sup>with permission</sup>  
for

Patrick J. Black, Esq.  
FENNEMORE CRAIG, P.C.  
2394 E. Camelback Road, Ste. 600  
Phoenix, Arizona 85016-3429  
Attorneys for Cordes Lakes Water Company  
(602) 916-5000

Original and thirteen (13) copies  
of the foregoing were filed this  
8<sup>th</sup> day of July, 2013 with:

Docket Control  
Arizona Corporation Commission  
1200 West Washington Street  
Phoenix, Arizona 85007

Copies of the foregoing were mailed  
this 8<sup>th</sup> day of July, 2013 to:

Patrick J. Black, Esq.  
FENNEMORE CRAIG, P.C.  
2394 E. Camelback Road, Ste. 600  
Phoenix, Arizona 85016-3429  
Attorneys for Cordes Lakes Water Company

Neil Folkman  
Cordes Lakes Water Company  
2501 East Palo Verde  
Phoenix, Arizona 85016



# **SCHEDULES**

CORDES LAKES WATER COMPANY

Docket No. W-02060A-12-0356

Test Year Ended December 31, 2011

SETTLEMENT TESTIMONY OF Mary J. Rimback

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CORDES LAKES WATER COMPANY  
Docket No. W-02060A-12-0356  
Test Year Ended December 31, 2011

Settlement MJR-1

REVENUE REQUIREMENT

| LINE<br>NO. | DESCRIPTION  | (A)<br>COMPANY<br>ORIGINAL<br>COST | (B)<br>STAFF<br>ORIGINAL<br>COST |
|-------------|--|------------------------------------|----------------------------------|
| 1           | Adjusted Rate Base                                 | \$ 496,789                         | \$ 163,913                       |
| 2           | Adjusted Operating Income (Loss) <sup>1</sup>      | \$ (17,373)                        | \$ (6,213)                       |
| 3           | Current Rate of Return (L2 / L1) <sup>2</sup>      | 0.00%                              | -3.79%                           |
| 4           | Required Rate of Return                            | 8.00%                              | 9.00%                            |
| 5           | Required Operating Income (L4 * L1) <sup>3,4</sup> | \$ 37,000                          | \$ 14,752                        |
| 6           | Operating Income Deficiency (L5 - L2) <sup>5</sup> | \$ 68,000                          | \$ 20,965                        |
| 7           | Gross Revenue Conversion Factor                    | None                               | 1.2965                           |
| 8           | Required Revenue Increase (L7 * L6) <sup>6</sup>   | \$ 77,000                          | \$ 27,182                        |
| 9           | Adjusted Test Year Revenue                         | \$ 403,993                         | \$ 420,536                       |
| 10          | Proposed Annual Revenue (L8 + L9) <sup>7</sup>     | \$ 498,366                         | \$ 447,718                       |
| 11          | Required Increase in Revenue (%)                   | 19.06%                             | 6.46%                            |

References:

Column (A): Company Schedule B-1 Rate Base, Revised E-2 (9/24/2012) Income Statement

Column (B): Staff Schedule MJR-3 & MJR-12

<sup>1</sup> The Company's application (Schedule A-1) uses Net Income as Operating Income.

<sup>2</sup> The Company's rate of return, as filed, is not a mathematical product of Operating Income divided by rate base.

<sup>3</sup> Rate base (\$496,789) times ROR (8.0%) equals \$39,743.

<sup>4</sup> The Company requests a \$30,000 water loss repair surcharge and a \$10,000 meter replacement surcharge.

<sup>5</sup> The Company's amount is not mathematically correct.

<sup>6</sup> The Company's amount is the total of Required Operating Income and both surcharges (\$37,000 + \$30,000 + \$10,000). However, the Company's request for a \$30,000 water loss surcharge only extends for two years and the \$10,000 meter replacement surcharge only extends for three years.

<sup>7</sup> Company's amount represents test year revenue (\$403,993) plus adjusted operating loss (\$17,373) plus required operating income (\$37,000) plus annual water loss surcharge (\$30,000) plus annual meter replacement surcharge (\$10,000).

GROSS REVENUE CONVERSION FACTOR

| LINE NO.   | DESCRIPTION  | (A)        | (B)        | (C)        | (D)      |
|--|--|------------|------------|------------|----------|
| <u>Calculation of Gross Revenue Conversion Factor:</u> |  |            |            |            |          |
| 1  | Revenue  | 100.0000%  |            |            |          |
| 2  | Uncollectible Factor (Line 11)   | 0.4745%    |            |            |          |
| 3  | Revenues (L1 - L2)   | 99.5255%   |            |            |          |
| 4  | Combined Federal and State Tax Rate (Line 17) + Property Tax Factor (Line 22)                        | 22.3951%   |            |            |          |
| 5  | Subtotal (L3 - L4)   | 77.1304%   |            |            |          |
| 6  | Revenue Conversion Factor (L1 / L5)  | 1.296505   |            |            |          |
| <u>Calculation of Uncollectible Factor:</u>            |  |            |            |            |          |
| 7  | Unity  | 100.0000%  |            |            |          |
| 8  | Combined Federal and State Tax Rate (Line 17)  | 20.9228%   |            |            |          |
| 9  | One Minus Combined Income Tax Rate (L7 - L8)   | 79.0772%   |            |            |          |
| 10   | Uncollectible Rate   | 0.6000%    |            |            |          |
| 11   | Uncollectible Factor (L9 * L10)  | 0.4745%    |            |            |          |
| <u>Calculation of Effective Tax Rate:</u>              |  |            |            |            |          |
| 12   | Operating Income Before Taxes (Arizona Taxable Income)   | 100.0000%  |            |            |          |
| 13   | Arizona State Income Tax Rate  | 6.9680%    |            |            |          |
| 14   | Federal Taxable Income (L12 - L13)   | 93.0320%   |            |            |          |
| 15   | Applicable Federal Income Tax Rate (Line 53)   | 15.0000%   |            |            |          |
| 16   | Effective Federal Income Tax Rate (L14 x L15)  | 13.9548%   |            |            |          |
| 17   | Combined Federal and State Income Tax Rate (L13 + L16)   | 20.9228%   |            |            |          |
| <u>Calculation of Effective Property Tax Factor</u>    |  |            |            |            |          |
| 18   | Unity  | 100.0000%  |            |            |          |
| 19   | Combined Federal and State Tax Rate (Line 17)  | 20.9228%   |            |            |          |
| 20   | One Minus Combined Income Tax Rate (L18 - L19)   | 79.0772%   |            |            |          |
| 21   | Property Tax Factor (MJR-17, L24)  | 1.8618%    |            |            |          |
| 22   | Effective Property Tax Factor (L21 * L20)  | 1.4723%    |            |            |          |
| 23   | Combined Federal and State Tax and Property Tax Rate (L17+L22)                                       |            | 22.3951%   |            |          |
| 24   | Required Operating Income (Schedule MJR-1, Line 5)   | \$ 14,752  |            |            |          |
| 25   | Adjusted Test Year Operating Income (Loss) (Schedule MJR-12, Line 40)                                | \$ (6,213) |            |            |          |
| 26   | Required Increase in Operating Income (L24 - L25)  |            | \$ 20,965  |            |          |
| 27   | Income Taxes on Recommended Revenue (Col. (D), L52)  | \$ 3,903   |            |            |          |
| 28   | Income Taxes on Test Year Revenue (Col. (B), L52)  | \$ (1,644) |            |            |          |
| 29   | Required Increase in Revenue to Provide for Income Taxes (L27 - L28)                                 |            | \$ 5,547   |            |          |
| 30   | Recommended Revenue Requirement (Schedule MJR-1, Line 10)  | \$ 447,718 |            |            |          |
| 31   | Uncollectible Rate (Line 10)   | 0.6000%    |            |            |          |
| 32   | Uncollectible Expense on Recommended Revenue (L24 * L25)   | \$ 2,686   |            |            |          |
| 33   | Adjusted Test Year Uncollectible Expense   | \$ 2,523   |            |            |          |
| 34   | Required Increase in Revenue to Provide for Uncollectible Exp. (L32 - L33)                           |            | \$ 163     |            |          |
| 35   | Property Tax with Recommended Revenue (MJR-18, L19)  | \$ 23,935  |            |            |          |
| 36   | Property Tax on Test Year Revenue (MJR-18, L16)  | \$ 23,429  |            |            |          |
| 37   | Increase in Property Tax Due to Increase in Revenue (MJR-18, L22)                                    |            | \$ 506     |            |          |
| 38   | Total Required Increase in Revenue (L26 + L29 + L34+L37)   |            | \$ 27,182  |            |          |
| <u>Calculation of Income Tax:</u>                      |  |            |            |            |          |
| 39   | Revenue (Schedule MJR-12, Col.(C), Line 5 & Sch. MJR-1, Col. (B), Line 10)                           | \$ 420,536 | \$ 27,182  | \$ 447,718 |          |
| 40   | Operating Expenses Excluding Income Taxes  | \$ 428,394 |            | \$ 429,063 |          |
| 41   | Synchronized Interest (L47)  | \$ -       |            | \$ -       |          |
| 42   | Arizona Taxable Income (L36 - L317- L38)   | \$ (7,857) |            | \$ 18,655  |          |
| 43   | Arizona State Income Tax Rate  | 6.9680%    |            | 6.9680%    |          |
| 44   | Arizona Income Tax (L39 x L40)   |            | \$ (547)   |            | \$ 1,300 |
| 45   | Federal Taxable Income (L42- L43)  | \$ (7,310) |            | \$ 17,355  |          |
| 46   | Federal Tax on First Income Bracket (\$1 - \$50,000) @ 15%   | \$ (1,096) |            | \$ 2,603   |          |
| 47   | Federal Tax on Second Income Bracket (\$50,001 - \$75,000) @ 25%                                     | \$ -       |            | \$ -       |          |
| 48   | Federal Tax on Third Income Bracket (\$75,001 - \$100,000) @ 34%                                     | \$ -       |            | \$ -       |          |
| 49   | Federal Tax on Fourth Income Bracket (\$100,001 - \$335,000) @ 39%                                   | \$ -       |            | \$ -       |          |
| 50   | Federal Tax on Fifth Income Bracket (\$335,001 - \$10,000,000) @ 34%                                 | \$ -       |            | \$ -       |          |
| 51   | Total Federal Income Tax   |            | \$ (1,096) |            | \$ 2,603 |
| 52   | Combined Federal and State Income Tax (L44 + L51)  |            | \$ (1,644) |            | \$ 3,903 |
| 53   | Applicable Federal Income Tax Rate [Col. (D), L51 - Col. (B), L51] / [Col. (C), L45 - Col. (A), L45] |            |            |            | 15.0000% |
| <u>Calculation of Interest Synchronization:</u>        |  |            |            |            |          |
| 54   | Rate Base (Schedule MJR-3, Col. (C), Line 17)  | \$ 163,913 |            |            |          |
| 55   | Weighted Average Cost of Debt  | 0.00%      |            |            |          |
| 56   | Synchronized Interest (L54 X L56)  | \$ -       |            |            |          |

CORDES LAKES WATER COMPANY  
Docket No. W-02060A-12-0356  
Test Year Ended December 31, 2011

Settlement MJR-3

RATE BASE - ORIGINAL COST

| LINE  | (A)<br>COMPANY<br>AS | (B)<br>STAFF                  | (C)<br>STAFF<br>AS |
|---|----------------------|-------------------------------|--------------------|
| <u>NO.</u>                                    | <u>FILED</u>         | <u>ADJUSTMENTS</u> <u>REF</u> | <u>ADJUSTED</u>    |
| 1 Plant in Service                            | \$ 601,634           | \$ 555,446                    | \$ 1,157,080       |
| 2 Less: Accumulated Depreciation              | 139,712              | 756,683                       | 896,395            |
| 3 Net Plant in Service                        | <u>\$ 461,922</u>    | <u>\$ (201,238)</u>           | <u>\$ 260,684</u>  |
| <u>LESS:</u>                                  |                      |                               |                    |
| 4 Contributions in Aid of Construction (CIAC) | \$ -                 | \$ 76,247                     | \$ 76,247          |
| 5 Less: Accumulated Amortization              | -                    | 18,755                        | 18,755             |
| 6 Net CIAC                                    | -                    | 57,492                        | 57,492             |
| 7 Advances in Aid of Construction (AIAC)      | 21,110               | -                             | 21,110             |
| 8 Customer Deposits                           | 18,170               | -                             | 18,170             |
| 9 Deterred Income Tax Liabilites              | -                    | -                             | -                  |
| <u>ADD:</u>                                   |                      |                               |                    |
| 10 Unamortized Finance Charges                | -                    | -                             | -                  |
| 11 Deferred Tax Assets                        | -                    | -                             | -                  |
| 12 Working Capital                            | 74,147               | (74,147)                      | -                  |
| 17 Original Cost Rate Base                    | <u>\$ 496,789</u>    | <u>\$ (332,876)</u>           | <u>\$ 163,913</u>  |

References:

Column (A), Company Schedule B-1,  
Column (B): Schedule MJR-4  
Column (C): Column (A) + Column (B)

CORDES LAKES WATER COMPANY  
 Docket No. W-0206DA-12-0356  
 Test Year Ended December 31, 2011

SUMMARY OF ORIGINAL COST RATE BASE ADJUSTMENTS

Settlement MJR-4

| LINE NO.              | ACCT. NO. | DESCRIPTION                                 | (A)<br>COMPANY AS FILED | (B)<br>Rec & Res Land ADJ #1<br>Ref: Sch MJR-5 | (C)<br>Used & Useful ADJ #2<br>Ref: Sch MJR-6 | (D)<br>Net Plant Additions ADJ #3<br>Ref: Sch MJR-7 | (E)<br>Acc Depr ADJ #4<br>Ref: Sch MJR-8 | (F)<br>Recognize CMC ADJ #5<br>Ref: Sch MJR-9 | (G)<br>Working Capital ADJ #6<br>Ref: Sch MJR-10 | (H)<br>Post IV Plant ADJ #7<br>Ref: Sch MJR-11 | (I)<br>STAFF ADJUSTED |
|-----------------------|-----------|---|-------------------------|--|---|---|--|---|--|--|-----------------------|
| <b>PLANT SERVICE:</b> |           |   |                         |  |   |   |  |   |  |  |                       |
| 1                     | 301       | Organization                                |                         |  |   |   |  |   |  |  |                       |
| 2                     | 302       | Franchises                                  |                         |  |   |   |  |   |  |  |                       |
| 3                     | 303       | Land and Land Rights                        | 35,665                  | (35,665)                                       |   |   |  |   |  |  |                       |
| 4                     | 304       | Structures & Improvements                   | 6,657                   |  |   |   |  |   |  |  | 6,657                 |
| 5                     | 305       | Collecting & Impounding Reservoirs          |                         |  |   |   |  |   |  |  |                       |
| 6                     | 306       | Lakes, Rivers, Other Intakes                |                         |  |   |   |  |   |  |  |                       |
| 7                     | 307       | Weirs and Springs                           |                         |  |   |   |  |   |  |  |                       |
| 8                     | 308       | Infiltration Galleries and Tunnels          | 167,348                 |  |   |   |  |   |  |  | 167,348               |
| 9                     | 309       | Supply Mains                                |                         |  |   |   |  |   |  |  |                       |
| 10                    | 310       | Power Generation Equipment                  |                         |  |   |   |  |   |  |  |                       |
| 11                    | 311       | Pumping Equipment                           | 26,588                  |  |   |   |  |   |  |  |                       |
| 12                    | 312       | Water Treatment Plant                       |                         |  |   |   |  |   |  |  |                       |
| 13                    | 320       | Distribution Reservoirs & Standpipes        |                         |  |   |   |  |   |  |  |                       |
| 14                    | 330       | Transmission & Distribution Mains           | 141,632                 |  |   |   |  |   |  |  | 141,632               |
| 15                    | 331       | Services                                    | 15,089                  |  | 562,840                                       | 3,898   |  |   |  | 18,324   | 581,937               |
| 16                    | 333       | Services                                    |                         |  | 19,350  |   |  |   |  |  | 19,350                |
| 17                    | 334       | Meters & Meter Installation                 | 70,842                  |  |   | (12,282)  |  |   |  |  | 58,560                |
| 18                    | 335       | Hydrants                                    |                         |  |   |   |  |   |  |  |                       |
| 19                    | 336       | Backflow Prevention Devices                 |                         |  |   |   |  |   |  |  |                       |
| 20                    | 339       | Other Plant & Misc. Equipment               | 59,315                  |  |   | 1,235   |  |   |  |  | 60,550                |
| 21                    | 340       | Office Furniture & Equipment                | 7,027                   |  |   | (926)   |  |   |  |  | 6,101                 |
| 22                    | 341       | Transportation Equipment                    | 71,461                  |  |   |   |  |   |  |  | 71,461                |
| 23                    | 342       | Stores Equipment                            |                         |  |   |   |  |   |  |  |                       |
| 24                    | 343       | Tools, Ship & Garage Equipment              |                         |  |   |   |  |   |  |  |                       |
| 25                    | 344       | Laboratory Equipment                        |                         |  |   |   |  |   |  |  |                       |
| 26                    | 345       | Power Operated Equipment                    |                         |  |   |   |  |   |  |  |                       |
| 27                    | 346       | Communication Equipment                     |                         |  |   |   |  |   |  |  |                       |
| 28                    | 347       | Miscellaneous Equipment                     |                         |  | 582   |   |  |   |  |  | 582                   |
| 29                    | 348       | Other Tangible Plant                        |                         |  |   |   |  |   |  |  |                       |
| 30                    |           |   |                         |  |   |   |  |   |  |  |                       |
| 31                    |           |   | 601,834                 | (35,665)                                       | 582,872                                       | (8,085)   |  |   |  | 16,324   | 1,157,080             |
| 32                    | ADD:      | Post Test Year Plant                        |                         |  |   |   |  |   |  |  |                       |
| 33                    |           | General Office Plant Allocation             |                         |  |   |   |  |   |  |  |                       |
| 34                    |           |   |                         |  |   |   |  |   |  |  |                       |
| 35                    | LESS:     |   |                         |  |   |   |  |   |  |  |                       |
| 36                    |           |   |                         |  |   |   |  |   |  |  |                       |
| 37                    |           |   |                         |  |   |   |  |   |  |  |                       |
| 38                    |           |   |                         |  |   |   |  |   |  |  |                       |
| 39                    |           | Total Plant in Service                      | \$ 601,834              | \$ (35,665)                                    | \$ 582,872                                    | \$ (8,085)  | \$ 756,683                               | \$ 76,247                                     | \$ 16,324  | \$ 1,157,080                                   |                       |
| 40                    |           | Less: Accumulated Depreciation              | \$ 138,712              |  |   |   |  |   |  |  | \$ 896,395            |
| 41                    |           |   |                         |  |   |   |  |   |  |  |                       |
| 42                    |           | Net Plant in Service (L-59 - L-60)          | \$ 463,122              | \$ (35,665)                                    | \$ 582,872                                    | \$ (8,085)  | \$ 756,683                               | \$ 76,247                                     | \$ 16,324  | \$ 1,157,080                                   |                       |
| 43                    |           |   |                         |  |   |   |  |   |  |  |                       |
| 44                    | LESS:     |   |                         |  |   |   |  |   |  |  |                       |
| 45                    |           | Contributions in Aid of Construction (CIAC) |                         |  |   |   |  |   |  |  |                       |
| 46                    |           | Less: Accumulated Amortization              |                         |  |   |   |  |   |  |  |                       |
| 47                    |           | Net CIAC (L-25 - L-26)                      | \$ 21,110               |  |   |   |  | \$ 16,785                                     |  |  | \$ 57,492             |
| 48                    |           | Advances in Aid of Construction (AIAC)      | \$ 18,170               |  |   |   |  | \$ 57,492                                     |  |  | \$ 21,110             |
| 49                    |           | Customer Deposits                           |                         |  |   |   |  |   |  |  |                       |
| 50                    |           | Deferred Tax Liabilities                    |                         |  |   |   |  |   |  |  |                       |
| 51                    |           |   |                         |  |   |   |  |   |  |  |                       |
| 52                    | ADD:      |   |                         |  |   |   |  |   |  |  |                       |
| 53                    |           | Unamortized Finance Charges                 |                         |  |   |   |  |   |  |  |                       |
| 54                    |           | Deferred Tax Assets                         |                         |  |   |   |  |   |  |  |                       |
| 55                    |           | Working Capital                             | \$ 74,147               |  |   |   |  |   |  |  | \$ 74,147             |
| 56                    |           |   |                         |  |   |   |  |   |  |  |                       |
| 57                    |           | Original Cost Rate Base                     | \$ 486,788              | \$ (35,665)                                    | \$ 582,872                                    | \$ (8,085)  | \$ 756,683                               | \$ 67,482                                     | \$ 74,147  | \$ 16,324                                      | \$ 1,157,080          |

CORDES LAKES WATER COMPANY  
Docket No. W-02060A-12-0356  
Test Year Ended December 31, 2011

Settlement MJR - 5

RATE BASE ADJUSTMENT #1 - REMOVE NON-USED AND USEFUL LAND

| Line<br>No. | DESCRIPTION | [A]<br>COMPANY<br>PROPOSED | [B]<br>STAFF<br>ADJUSTMENTS | [C]<br>STAFF<br>RECOMMENDED |
|-------------|-------------|----------------------------|-----------------------------|-----------------------------|
| 1           | Land        | \$ 35,665                  | \$ (35,665)                 | \$ -                        |

References:

Col [A]: Company Schedule B-1  
Col [B]: Col [C] - Col [A]  
Col [C]: MJR Testimony

CORDES LAKES WATER COMPANY  
Docket No. W-02060A-12-0356  
Test Year Ended December 31, 2011

Settlement MJR-6

RATE BASE ADJUSTMENT #2 REINSTATE USED AND USEFULL PLANT

| LINE<br>NO. | ACCT<br>NO. | DESCRIPTION                       | [A]<br>COMPANY<br>2006 Balance<br>AS<br>FILED |        | [B]<br>Decision No.<br>70170<br>STAFF<br>ADJUSTMENTS |         | [C]<br>STAFF<br>RECOMMENDED |         |
|-------------|-------------|-----------------------------------|---|--------|--|---------|-----------------------------|---------|
|             |             |                                   |   |        |  |         |                             |         |
| 1           | 311         | Pumping Equipment                 | \$  | 10,558 | \$   | -       | \$                          | 10,558  |
| 2           | 331         | Transmission & Distribution Mains |   | 9,444  |  | 562,940 |                             | 572,384 |
| 3           | 333         | Services                          |   | -      |  | 19,350  |                             | 19,350  |
| 4           | 347         | Miscellaneous Equipment           |   | -      |  | 582     |                             | 582     |
| 5           |             | Totals                            | \$  | 20,002 | \$   | 582,872 | \$                          | 602,874 |

[A]: Company Schedule E-5 and Detail 11/8/2012  
[B]: Col [C] - Col [A]  
[C]: MJR Testimony

CORDES LAKES WATER COMPANY  
Docket No. W-02060A-12-0356  
Test Year Ended December 31, 2011

Settlement MJR-7

RATE BASE ADJUSTMENT #3 NET PLANT ADDITIONS

| LINE<br>NO. | ACCT<br>NO. | DESCRIPTION                       | [A]<br>COMPANY<br>Additions<br>11/8/2012 | [B]<br>STAFF<br>ADJUSTMENTS | [C]<br>STAFF<br>RECOMMENDED |
|-------------|-------------|-----------------------------------|--|-----------------------------|-----------------------------|
|             |             |                                   |  |                             |                             |
| 1           | 331         | Transmission & Distribution Mains | \$ 5,655                                 | \$ 3,898                    | \$ 9,553                    |
| 2           | 334         | Meters & Meter Installation       | 35,253                                   | (12,292)                    | 22,961                      |
| 3           | 339         | Other Plant & Misc. Equipment     | 5,166                                    | 1,235                       | 6,401                       |
| 4           | 340         | Office Furniture & Equipment      | 2,537                                    | (926)                       | 1,611                       |
| 5           |             | Totals                            | \$ 48,611                                | \$ (8,085)                  | \$ 40,526                   |

[A]: Company Schedule E-5 and Detail provided 11/8/2012

[B]: Col [C] - Col [A]

[C]:MJR Testimony

CORDES LAKES WATER COMPANY  
Docket No. W-02060A-12-0356  
Test Year Ended December 31, 2011

Settlement MJR-8

RATE BASE ADJUSTMENT #4 - ACCUMULATED DEPRECIATION

| LINE<br>NO. | DESCRIPTION              | [A]<br>COMPANY<br>PROPOSED | [B]<br>STAFF<br>ADJUSTMENTS | [C]<br>STAFF<br>RECOMMENDED |
|-------------|--------------------------|----------------------------|-----------------------------|-----------------------------|
| 1           | Accumulated Depreciation | <u>\$ 139,712</u>          | <u>\$ 756,683</u>           | <u>\$ 896,395</u>           |

References:

Col [A]: Company Schedule B-1

Col [B]: Col [C] - Col [A]

Col [C]: MJR Testimony



CORDES LAKES WATER COMPANY  
Docket No. W-02060A-12-0356  
Test Year Ended December 31, 2011

Settlement MJR-9

RATE BASE ADJUSTMENT #5 - CIAC AND ACCUMULATED AMORTIZATION OF CIAC

| LINE<br>NO. | DESCRIPTION                          | [A]<br>COMPANY<br>PROPOSED | [B]<br>STAFF<br>ADJUSTMENTS | [C]<br>STAFF<br>RECOMMENDED |
|-------------|--------------------------------------|----------------------------|-----------------------------|-----------------------------|
| 1           | Contributions in aid of construction | \$ -                       | \$ 76,247                   | \$ 76,247                   |
| 2           | Accumulated Amortization of CIAC     | \$ -                       | \$ 18,755                   | \$ 18,755                   |

References:

Col [A]: Company Schedule B-1  
Col [B]: Col [C] - Col [A]  
Col [C]: Decision 70170

CORDES LAKES WATER COMPANY  
Docket No. W-02060A-12-0356  
Test Year Ended December 31, 2011

Settlement MJR-10

**RATE BASE ADJUSTMENT #6 - WORKING CAPITAL ALLOWANCE**

| LINE<br>NO. | DESCRIPTION               | [A]<br>COMPANY<br>PROPOSED | [B]<br>STAFF<br>ADJUSTMENTS | [C]<br>STAFF<br>RECOMMENDED |
|-------------|---------------------------|----------------------------|-----------------------------|-----------------------------|
| 1           | Working Capital Allowance | \$ 74,147                  | \$ (74,147)                 | \$ -                        |

References:

Col [A]: Company Schedule B-1  
Col [B]: Col [C] - Col [A]  
Col [C]: MJR Testimony

CORDES LAKES WATER COMPANY  
Docket No. W-02060A-12-0356  
Test Year Ended December 31, 2011

Settlement MJR-11

RATE BASE ADJUSTMENT #7 - POST TEST YEAR PLANT

| LINE<br>NO. | DESCRIPTION                          | [A]<br>COMPANY<br>PROPOSED | [B]<br>STAFF<br>ADJUSTMENTS | [C]<br>STAFF<br>RECOMMENDED |
|-------------|--------------------------------------|----------------------------|-----------------------------|-----------------------------|
| 1           | 311 Pumping Equipment                | \$ 26,588                  | \$ 16,324                   | \$42,912                    |
| 2           | Accumulated Depreciation—Application | \$0                        | \$0                         | \$0                         |

References:

Col [A]: Company Schedule B-1

Col [B]: Company Testimony

Col [C]: Col [A] + Col [B]

OPERATING INCOME STATEMENT - ADJUSTED TEST YEAR AND STAFF RECOMMENDED

Settlement MJR-12

| LINE NO. | DESCRIPTION                                   | [A]<br>COMPANY<br>ADJUSTED<br>TEST YEAR<br>AS FILED | [B]<br>STAFF<br>TEST YEAR<br>ADJUSTMENTS | [C]<br>STAFF<br>TEST YEAR<br>AS<br>ADJUSTED | [D]<br>STAFF<br>PROPOSED<br>CHANGES | [E]<br>STAFF<br>RECOMMENDED |
|----------|---|---|--|---|-------------------------------------|-----------------------------|
| 1        | <u>REVENUES:</u>                              |   |  |   |                                     |                             |
| 2        | Metered Water Sales                           | \$ 403,353  | \$ 9,093                                 | \$ 412,446                                  | \$ 27,182                           | \$ 439,628                  |
| 3        | Received for Contract Labor                   | 167,692   | (167,692)                                | -   | -                                   | -                           |
| 4        | Miscellaneous Revenue                         | 640   | 7,450                                    | 8,090                                       | -                                   | 8,090                       |
| 5        | Total Operating Revenues                      | \$ 571,685  | \$ (151,149)                             | \$ 420,536                                  | \$ 27,182                           | \$ 447,718                  |
| 6        | <u>OPERATING EXPENSES:</u>                    |   |  |   |                                     |                             |
| 7        | Payroll                                       | \$ 309,095  | \$ (167,692)                             | \$ 141,403                                  | \$ -                                | \$ 141,403                  |
| 8        | Contract Labor                                | 10,312  | -  | 10,312                                      | -                                   | 10,312                      |
| 9        | Employee Benefits                             | 29,422  | -  | 29,422                                      | -                                   | 29,422                      |
| 10       | Purchased Power                               | 31,723  | 917                                      | 32,640                                      | -                                   | 32,640                      |
| 11       | Repairs and Maintenance                       | 12,650  | 1,012                                    | 13,662                                      | -                                   | 13,662                      |
| 12       | Office Supplies and Expense                   | 14,491  | -  | 14,491                                      | -                                   | 14,491                      |
| 13       | Outside Services - Accounting                 | 3,660   | 6,340                                    | 10,000                                      | -                                   | 10,000                      |
| 17       | Outside Services - Billing Services           | 24,118  | -  | 24,118                                      | -                                   | 24,118                      |
| 18       | Outside Services - Computer Programming       | 3,511   | -  | 3,511                                       | -                                   | 3,511                       |
| 19       | Water Testing                                 | 1,806   | 4,052                                    | 5,858                                       | -                                   | 5,858                       |
| 20       | Rents   | 28,150  | -  | 28,150                                      | -                                   | 28,150                      |
| 21       | Transportation Expenses                       | 8,995   | -  | 8,995                                       | -                                   | 8,995                       |
| 22       | Insurance - General Liability                 | 33,033  | -  | 33,033                                      | -                                   | 33,033                      |
| 23       | Insurance - Health and Life                   | 14,936  | -  | 14,936                                      | -                                   | 14,936                      |
| 24       | Rate Case Expense                             | -   | 6,000                                    | 6,000                                       | -                                   | 6,000                       |
| 25       | Regulatory Expense                            | -   | -  | -   | -                                   | -                           |
| 26       | Misc Expense - Permits                        | 2,000   | -  | 2,000                                       | -                                   | 2,000                       |
| 27       | Misc Expense - Travel                         | -   | -  | -   | -                                   | -                           |
| 28       | Misc. Expenses - Utilities except Electricity | 3,391   | -  | 3,391                                       | -                                   | 3,391                       |
| 29       | Misc. Expenses - Bank Charges                 | 1,304   | 2,528                                    | 3,832                                       | 163                                 | 3,995                       |
| 30       | Misc. Expenses - Payroll Services             | 859   | -  | 859   | -                                   | 859                         |
| 31       | Depreciation Expense                          | 37,195  | (20,068)                                 | 17,127                                      | -                                   | 17,127                      |
| 32       | Payroll Taxes                                 | 175   | -  | 175   | -                                   | 175                         |
| 33       | Taxes other than Income (Sales Tax)           | -   | -  | -   | -                                   | -                           |
| 34       | Property Taxes                                | 18,187  | 5,242                                    | 23,429                                      | 506                                 | 23,935                      |
| 35       | Income Tax                                    | 45  | (1,689)                                  | (1,644)                                     | 5,547                               | 3,903                       |
| 36       | Interest Income                               | -   | -  | -   | -                                   | -                           |
| 37       | Interest Expense                              | -   | 1,050                                    | 1,050                                       | -                                   | 1,050                       |
| 38       |   |   |  |   |                                     |                             |
| 39       | Total Operating Expenses                      | \$ 589,058  | \$ (162,308)                             | \$ 426,750                                  | \$ 6,216                            | \$ 432,966                  |
| 40       | Operating Income (Loss)                       | \$ (17,373)   | \$ 11,160                                | \$ (6,213)                                  | \$ 20,965                           | \$ 14,752                   |

References:

Column (A): Company Revised Schedule E-2, 11/8/2012  
Column (B): Schedule Surrebuttal MJR-12  
Column (C): Column (A) + Column (B)  
Column (D): Surrebuttal Schedules MJR-1 and MJR-2  
Column (E): Column (C) + Column (D)

SUMMARY OF OPERATING INCOME STATEMENT ADJUSTMENTS - TEST YEAR

| LINE NO. | DESCRIPTION | COMPANY AS FIED 8/24/2012 | IN | IR | IC | IC1 | IC2 | IC3 | IC4 | IC5 | IC6 | IC7 | IC8 | IC9 | IC10 | IC11 | IC12 | IC13 | IC14 | IC15 | IC16 | IC17 | IC18 | IC19 | IC20 | IC21 | IC22 | IC23 | IC24 | IC25 | IC26 | IC27 | IC28 | IC29 | IC30 | IC31 | IC32 | IC33 | IC34 | IC35 | IC36 | IC37 | IC38 | IC39 | IC40 | IC41 | IC42 | IC43 | IC44 | IC45 | IC46 | IC47 | IC48 | IC49 | IC50 | IC51 | IC52 | IC53 | IC54 | IC55 | IC56 | IC57 | IC58 | IC59 | IC60 | IC61 | IC62 | IC63 | IC64 | IC65 | IC66 | IC67 | IC68 | IC69 | IC70 | IC71 | IC72 | IC73 | IC74 | IC75 | IC76 | IC77 | IC78 | IC79 | IC80 | IC81 | IC82 | IC83 | IC84 | IC85 | IC86 | IC87 | IC88 | IC89 | IC90 | IC91 | IC92 | IC93 | IC94 | IC95 | IC96 | IC97 | IC98 | IC99 | IC100 | IC101 | IC102 | IC103 | IC104 | IC105 | IC106 | IC107 | IC108 | IC109 | IC110 | IC111 | IC112 | IC113 | IC114 | IC115 | IC116 | IC117 | IC118 | IC119 | IC120 | IC121 | IC122 | IC123 | IC124 | IC125 | IC126 | IC127 | IC128 | IC129 | IC130 | IC131 | IC132 | IC133 | IC134 | IC135 | IC136 | IC137 | IC138 | IC139 | IC140 | IC141 | IC142 | IC143 | IC144 | IC145 | IC146 | IC147 | IC148 | IC149 | IC150 | IC151 | IC152 | IC153 | IC154 | IC155 | IC156 | IC157 | IC158 | IC159 | IC160 | IC161 | IC162 | IC163 | IC164 | IC165 | IC166 | IC167 | IC168 | IC169 | IC170 | IC171 | IC172 | IC173 | IC174 | IC175 | IC176 | IC177 | IC178 | IC179 | IC180 | IC181 | IC182 | IC183 | IC184 | IC185 | IC186 | IC187 | IC188 | IC189 | IC190 | IC191 | IC192 | IC193 | IC194 | IC195 | IC196 | IC197 | IC198 | IC199 | IC200 | IC201 | IC202 | IC203 | IC204 | IC205 | IC206 | IC207 | IC208 | IC209 | IC210 | IC211 | IC212 | IC213 | IC214 | IC215 | IC216 | IC217 | IC218 | IC219 | IC220 | IC221 | IC222 | IC223 | IC224 | IC225 | IC226 | IC227 | IC228 | IC229 | IC230 | IC231 | IC232 | IC233 | IC234 | IC235 | IC236 | IC237 | IC238 | IC239 | IC240 | IC241 | IC242 | IC243 | IC244 | IC245 | IC246 | IC247 | IC248 | IC249 | IC250 | IC251 | IC252 | IC253 | IC254 | IC255 | IC256 | IC257 | IC258 | IC259 | IC260 | IC261 | IC262 | IC263 | IC264 | IC265 | IC266 | IC267 | IC268 | IC269 | IC270 | IC271 | IC272 | IC273 | IC274 | IC275 | IC276 | IC277 | IC278 | IC279 | IC280 | IC281 | IC282 | IC283 | IC284 | IC285 | IC286 | IC287 | IC288 | IC289 | IC290 | IC291 | IC292 | IC293 | IC294 | IC295 | IC296 | IC297 | IC298 | IC299 | IC300 | IC301 | IC302 | IC303 | IC304 | IC305 | IC306 | IC307 | IC308 | IC309 | IC310 | IC311 | IC312 | IC313 | IC314 | IC315 | IC316 | IC317 | IC318 | IC319 | IC320 | IC321 | IC322 | IC323 | IC324 | IC325 | IC326 | IC327 | IC328 | IC329 | IC330 | IC331 | IC332 | IC333 | IC334 | IC335 | IC336 | IC337 | IC338 | IC339 | IC340 | IC341 | IC342 | IC343 | IC344 | IC345 | IC346 | IC347 | IC348 | IC349 | IC350 | IC351 | IC352 | IC353 | IC354 | IC355 | IC356 | IC357 | IC358 | IC359 | IC360 | IC361 | IC362 | IC363 | IC364 | IC365 | IC366 | IC367 | IC368 | IC369 | IC370 | IC371 | IC372 | IC373 | IC374 | IC375 | IC376 | IC377 | IC378 | IC379 | IC380 | IC381 | IC382 | IC383 | IC384 | IC385 | IC386 | IC387 | IC388 | IC389 | IC390 | IC391 | IC392 | IC393 | IC394 | IC395 | IC396 | IC397 | IC398 | IC399 | IC400 | IC401 | IC402 | IC403 | IC404 | IC405 | IC406 | IC407 | IC408 | IC409 | IC410 | IC411 | IC412 | IC413 | IC414 | IC415 | IC416 | IC417 | IC418 | IC419 | IC420 | IC421 | IC422 | IC423 | IC424 | IC425 | IC426 | IC427 | IC428 | IC429 | IC430 | IC431 | IC432 | IC433 | IC434 | IC435 | IC436 | IC437 | IC438 | IC439 | IC440 | IC441 | IC442 | IC443 | IC444 | IC445 | IC446 | IC447 | IC448 | IC449 | IC450 | IC451 | IC452 | IC453 | IC454 | IC455 | IC456 | IC457 | IC458 | IC459 | IC460 | IC461 | IC462 | IC463 | IC464 | IC465 | IC466 | IC467 | IC468 | IC469 | IC470 | IC471 | IC472 | IC473 | IC474 | IC475 | IC476 | IC477 | IC478 | IC479 | IC480 | IC481 | IC482 | IC483 | IC484 | IC485 | IC486 | IC487 | IC488 | IC489 | IC490 | IC491 | IC492 | IC493 | IC494 | IC495 | IC496 | IC497 | IC498 | IC499 | IC500 | IC501 | IC502 | IC503 | IC504 | IC505 | IC506 | IC507 | IC508 | IC509 | IC510 | IC511 | IC512 | IC513 | IC514 | IC515 | IC516 | IC517 | IC518 | IC519 | IC520 | IC521 | IC522 | IC523 | IC524 | IC525 | IC526 | IC527 | IC528 | IC529 | IC530 | IC531 | IC532 | IC533 | IC534 | IC535 | IC536 | IC537 | IC538 | IC539 | IC540 | IC541 | IC542 | IC543 | IC544 | IC545 | IC546 | IC547 | IC548 | IC549 | IC550 | IC551 | IC552 | IC553 | IC554 | IC555 | IC556 | IC557 | IC558 | IC559 | IC560 | IC561 | IC562 | IC563 | IC564 | IC565 | IC566 | IC567 | IC568 | IC569 | IC570 | IC571 | IC572 | IC573 | IC574 | IC575 | IC576 | IC577 | IC578 | IC579 | IC580 | IC581 | IC582 | IC583 | IC584 | IC585 | IC586 | IC587 | IC588 | IC589 | IC590 | IC591 | IC592 | IC593 | IC594 | IC595 | IC596 | IC597 | IC598 | IC599 | IC600 | IC601 | IC602 | IC603 | IC604 | IC605 | IC606 | IC607 | IC608 | IC609 | IC610 | IC611 | IC612 | IC613 | IC614 | IC615 | IC616 | IC617 | IC618 | IC619 | IC620 | IC621 | IC622 | IC623 | IC624 | IC625 | IC626 | IC627 | IC628 | IC629 | IC630 | IC631 | IC632 | IC633 | IC634 | IC635 | IC636 | IC637 | IC638 | IC639 | IC640 | IC641 | IC642 | IC643 | IC644 | IC645 | IC646 | IC647 | IC648 | IC649 | IC650 | IC651 | IC652 | IC653 | IC654 | IC655 | IC656 | IC657 | IC658 | IC659 | IC660 | IC661 | IC662 | IC663 | IC664 | IC665 | IC666 | IC667 | IC668 | IC669 | IC670 | IC671 | IC672 | IC673 | IC674 | IC675 | IC676 | IC677 | IC678 | IC679 | IC680 | IC681 | IC682 | IC683 | IC684 | IC685 | IC686 | IC687 | IC688 | IC689 | IC690 | IC691 | IC692 | IC693 | IC694 | IC695 | IC696 | IC697 | IC698 | IC699 | IC700 | IC701 | IC702 | IC703 | IC704 | IC705 | IC706 | IC707 | IC708 | IC709 | IC710 | IC711 | IC712 | IC713 | IC714 | IC715 | IC716 | IC717 | IC718 | IC719 | IC720 | IC721 | IC722 | IC723 | IC724 | IC725 | IC726 | IC727 | IC728 | IC729 | IC730 | IC731 | IC732 | IC733 | IC734 | IC735 | IC736 | IC737 | IC738 | IC739 | IC740 | IC741 | IC742 | IC743 | IC744 | IC745 | IC746 | IC747 | IC748 | IC749 | IC750 | IC751 | IC752 | IC753 | IC754 | IC755 | IC756 | IC757 | IC758 | IC759 | IC760 | IC761 | IC762 | IC763 | IC764 | IC765 | IC766 | IC767 | IC768 | IC769 | IC770 | IC771 | IC772 | IC773 | IC774 | IC775 | IC776 | IC777 | IC778 | IC779 | IC780 | IC781 | IC782 | IC783 | IC784 | IC785 | IC786 | IC787 | IC788 | IC789 | IC790 | IC791 | IC792 | IC793 | IC794 | IC795 | IC796 | IC797 | IC798 | IC799 | IC800 | IC801 | IC802 | IC803 | IC804 | IC805 | IC806 | IC807 | IC808 | IC809 | IC810 | IC811 | IC812 | IC813 | IC814 | IC815 | IC816 | IC817 | IC818 | IC819 | IC820 | IC821 | IC822 | IC823 | IC824 | IC825 | IC826 | IC827 | IC828 | IC829 | IC830 | IC831 | IC832 | IC833 | IC834 | IC835 | IC836 | IC837 | IC838 | IC839 | IC840 | IC841 | IC842 | IC843 | IC844 | IC845 | IC846 | IC847 | IC848 | IC849 | IC850 | IC851 | IC852 | IC853 | IC854 | IC855 | IC856 | IC857 | IC858 | IC859 | IC860 | IC861 | IC862 | IC863 | IC864 | IC865 | IC866 | IC867 | IC868 | IC869 | IC870 | IC871 | IC872 | IC873 | IC874 | IC875 | IC876 | IC877 | IC878 | IC879 | IC880 | IC881 | IC882 | IC883 | IC884 | IC885 | IC886 | IC887 | IC888 | IC889 | IC890 | IC891 | IC892 | IC893 | IC894 | IC895 | IC896 | IC897 | IC898 | IC899 | IC900 | IC901 | IC902 | IC903 | IC904 | IC905 | IC906 | IC907 | IC908 | IC909 | IC910 | IC911 | IC912 | IC913 | IC914 | IC915 | IC916 | IC917 | IC918 | IC919 | IC920 | IC921 | IC922 | IC923 | IC924 | IC925 | IC926 | IC927 | IC928 | IC929 | IC930 | IC931 | IC932 | IC933 | IC934 | IC935 | IC936 | IC937 | IC938 | IC939 | IC940 | IC941 | IC942 | IC943 | IC944 | IC945 | IC946 | IC947 | IC948 | IC949 | IC950 | IC951 | IC952 | IC953 | IC954 | IC955 | IC956 | IC957 | IC958 | IC959 | IC960 | IC961 | IC962 | IC963 | IC964 | IC965 | IC966 | IC967 | IC968 | IC969 | IC970 | IC971 | IC972 | IC973 | IC974 | IC975 | IC976 | IC977 | IC978 | IC979 | IC980 | IC981 | IC982 | IC983 | IC984 | IC985 | IC986 | IC987 | IC988 | IC989 | IC990 | IC991 | IC992 | IC993 | IC994 | IC995 | IC996 | IC997 | IC998 | IC999 | IC1000 | IC1001 | IC1002 | IC1003 | IC1004 | IC1005 | IC1006 | IC1007 | IC1008 | IC1009 | IC1010 | IC1011 | IC1012 | IC1013 | IC1014 | IC1015 | IC1016 | IC1017 | IC1018 | IC1019 | IC1020 | IC1021 | IC1022 | IC1023 | IC1024 | IC1025 | IC1026 | IC1027 | IC1028 | IC1029 | IC1030 | IC1031 | IC1032 | IC1033 | IC1034 | IC1035 | IC1036 | IC1037 | IC1038 | IC1039 | IC1040 | IC1041 | IC1042 | IC1043 | IC1044 | IC1045 | IC1046 | IC1047 | IC1048 | IC1049 | IC1050 | IC1051 | IC1052 | IC1053 | IC1054 | IC1055 | IC1056 | IC1057 | IC1058 | IC1059 | IC1060 | IC1061 | IC1062 | IC1063 | IC1064 | IC1065 | IC1066 | IC1067 | IC1068 | IC1069 | IC1070 | IC1071 | IC1072 | IC1073 | IC1074 | IC1075 | IC1076 | IC1077 | IC1078 | IC1079 | IC1080 | IC1081 | IC1082 | IC1083 | IC1084 | IC1085 | IC1086 | IC1087 | IC1088 | IC1089 | IC1090 | IC1091 | IC1092 | IC1093 | IC1094 | IC1095 | IC1096 | IC1097 | IC1098 | IC1099 | IC1100 | IC1101 | IC1102 | IC1103 | IC1104 | IC1105 | IC1106 | IC1107 | IC1108 | IC1109 | IC1110 | IC1111 | IC1112 | IC1113 | IC1114 | IC1115 | IC1116 | IC1117 | IC1118 | IC1119 | IC1120 | IC1121 | IC1122 | IC1123 | IC1124 | IC1125 | IC1126 | IC1127 | IC1128 | IC1129 | IC1130 | IC1131 | IC1132 | IC1133 | IC1134 | IC1135 | IC1136 | IC1137 | IC1138 | IC1139 | IC1140 | IC1141 | IC1142 | IC1143 | IC1144 | IC1145 | IC1146 | IC1147 | IC1148 | IC1149 | IC1150 | IC1151 | IC1152 | IC1153 | IC1154 | IC1155 | IC1156 | IC1157 | IC1158 | IC1159 | IC1160 | IC1161 | IC1162 | IC1163 | IC1164 | IC1165 | IC1166 | IC1167 | IC1168 | IC1169 | IC1170 | IC1171 | IC1172 | IC1173 | IC1174 | IC1175 | IC1176 | IC1177 | IC1178 | IC1179 | IC1180 | IC1181 | IC1182 | IC1183 | IC1184 | IC1185 | IC1186 | IC1187 | IC1188 | IC1189 | IC1190 | IC1191 | IC1192 | IC1193 | IC1194 | IC1195 | IC1196 | IC1197 | IC1198 | IC1199 | IC1200 | IC1201 | IC1202 | IC1203 | IC1204 | IC1205 | IC1206 | IC1207 | IC1208 | IC1209 | IC1210 | IC1211 | IC1212 | IC1213 | IC1214 | IC1215 | IC1216 | IC1217 | IC1218 | IC1219 | IC1220 | IC1221 | IC1222 | IC1223 | IC1224 | IC1225 | IC1226 | IC1227 | IC1228 | IC1229 | IC1230 | IC1231 | IC1232 | IC1233 | IC1234 | IC1235 | IC1236 | IC1237 | IC1238 | IC1239 | IC1240 | IC1241 | IC1242 | IC1243 | IC1244 | IC1245 | IC1246 | IC1247 | IC1248 | IC1249 | IC1250 | IC1251 | IC1252 | IC1253 | IC1254 | IC1255 | IC1256 | IC1257 | IC1258 | IC1259 | IC1260 | IC1261 | IC1262 | IC1263 | IC1264 | IC1265 | IC1266 | IC1267 | IC1268 | IC1269 | IC1270 | IC1271 | IC1272 | IC1273 | IC1274 | IC1275 | IC1276 | IC1277 | IC1278 | IC1279 | IC1280 | IC1281 | IC1282 | IC1283 | IC1284 | IC1285 | IC1286 | IC1287 | IC1288 | IC1289 | IC1290 | IC1291 | IC1292 | IC1293 | IC1294 | IC1295 | IC1296 | IC1297 | IC1298 | IC1299 | IC1300 | IC1301 | IC1302 | IC1303 | IC1304 | IC1305 | IC1306 | IC1307 | IC1308 | IC1309 | IC1310 | IC1311 | IC1312 | IC1313 | IC1314 | IC1315 | IC1316 | IC1317 | IC1318 | IC1319 | IC1320 | IC1321 | IC1322 |
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CORDES LAKES WATER COMPANY  
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Test Year Ended December 31, 2011

Settlement MJR-14

OPERATING INCOME ADJUSTMENT #1 - REMOVE NON-UTILITY REVENUES AND EXPENSES FOR CONTRACT LABOR

| LINE<br>NO. | DESCRIPTION             | [A]<br>COMPANY<br>PROPOSED | [B]<br>STAFF<br>ADJUSTMENTS | [C]<br>STAFF<br>RECOMMENDED |
|-------------|-------------------------|----------------------------|-----------------------------|-----------------------------|
| 1           | Contract Labor Revenue  | \$ 167,692                 | \$ (167,692)                | \$ -                        |
| 2           | Payroll                 | \$ 167,692                 | (167,692)                   | \$ -                        |
| 3           | Operating Income Affect | \$ -                       | \$ -                        | \$ -                        |

References:

Col [A]: Company Schedule E-2

Col [B]: Col [C] - Col [A]

Col [C]: MJR Testimony

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Settlement MJR-15

OPERATING INCOME ADJUSTMENT #2 - NORMALIZATION OF REPAIRS & MAINTENANCE EXPENSES

| LINE<br>NO. | DESCRIPTION                                       | [A]<br>COMPANY<br>PROPOSED | [B]<br>STAFF<br>ADJUSTMENTS | [C]<br>STAFF<br>RECOMMENDED |
|-------------|---|----------------------------|-----------------------------|-----------------------------|
| 1           | Repairs & Maintenance                             | \$ 12,650                  | \$ 1,012                    | \$ 13,662                   |
| 2           | Repairs & Maintenance - Company's Test Year: 2011 |                            |                             | \$ 12,650                   |
| 3           | Repairs & Maintenance - 2010 Annual Stmt          |                            |                             | 17,221                      |
| 4           | Repairs & Maintenance - 2009 Annual Stmt          |                            |                             | 11,116                      |
| 5           | Repairs & Maintenance expenses, past three years  |                            |                             | \$ 40,987                   |
| 6           | Average Repair & Maintenance expense (line 5/3)   |                            |                             | \$ 13,662                   |

References:

Col [A]: Company Schedule C-1

Col [B]: Col [C] - Col [A]

Col [C]: Normalized Repairs & Maintenance Expense Col [C] L6.

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Settlement MJR-16

OPERATING INCOME ADJUSTMENT #3 - METERED REVENUE

| LINE<br>NO. | DESCRIPTION     | [A]<br>COMPANY<br>PROPOSED | [B]<br>STAFF<br>ADJUSTMENTS | [C]<br>STAFF<br>RECOMMENDED |
|-------------|-----------------|----------------------------|-----------------------------|-----------------------------|
| 1           | Metered Revenue | \$ 403,353                 | \$ 9,093                    | \$ 412,446                  |

References:

Col [A]: Company Schedule E-2 Revised 9/24/2012  
Col [B]: Col [C] - Col [A]  
Col [C]: MJR Testimony

Bill Count Revenue

|                |                   |
|----------------|-------------------|
| 3/4 inch Meter | \$ 404,597        |
| 1 inch Meter   | 2,397             |
| 2 inch Meter   | 5,452             |
| Subtotal       | <u>\$ 412,446</u> |



OPERATING INCOME ADJUSTMENT #4 - DEPRECIATION EXPENSE

| Line No.                | ACCT NO. | DESCRIPTION  | [A]<br>AMOUNT | Depreciable Amount | [B]<br>Projected RATE | [C]<br>EXPENSE |
|-------------------------|----------|--|---------------|--------------------|-----------------------|----------------|
| <b>Plant In Service</b> |          |  |               |                    |                       |                |
| 1                       | 301      | Organization   | \$ -          | \$ -               | 0.00%                 | \$ -           |
| 2                       | 302      | Franchises   | -             | -                  | 0.00%                 | -              |
| 3                       | 303      | Land and Land Rights   | -             | -                  | 0.00%                 | -              |
| 4                       | 304      | Structures & Improvements  | 6,657         | 4,400              | 3.33%                 | 147            |
| 5                       | 305      | Collecting & Impounding Reservoirs   | -             | -                  | 2.50%                 | -              |
| 6                       | 306      | Lakes, Rivers, Other Intakes   | -             | -                  | 2.50%                 | -              |
| 7                       | 307      | Wells and Springs  | 167,348       | 151,979            | 3.33%                 | 5,061          |
| 8                       | 308      | Infiltration Galleries and Tunnels   | -             | -                  | 6.67%                 | -              |
| 9                       | 309      | Supply Mains   | -             | -                  | 2.00%                 | -              |
| 10                      | 310      | Power Generation Equipment   | -             | -                  | 5.00%                 | -              |
| 11                      | 311      | Pumping Equipment  | 42,912        | 32,354             | 12.50%                | 4,044          |
| 12                      | 320      | Water Treatment Plant  | -             | -                  | 3.33%                 | -              |
| 13                      | 330      | Distribution Reservoirs & Standpipes   | 141,632       | 94,458             | 2.22%                 | 2,097          |
| 14                      | 331      | Transmission & Distribution Mains  | 581,937       | 19,442             | 2.00%                 | 389            |
| 15                      | 333      | Services   | 19,350        | -                  | 3.33%                 | -              |
| 16                      | 334      | Meters & Meter Installation  | 58,550        | 50,811             | 8.33%                 | 4,233          |
| 17                      | 335      | Hydrants   | -             | -                  | 2.00%                 | -              |
| 18                      | 336      | Backflow Prevention Devices  | -             | -                  | 6.67%                 | -              |
| 19                      | 339      | Other Plant & Misc. Equipment  | 60,550        | 60,550             | 6.67%                 | 4,039          |
| 20                      | 340      | Office Furniture & Equipment   | 6,101         | 6,101              | 6.67%                 | 407            |
| 21                      | 341      | Transportation Equipment   | 71,461        | 2,412              | 20.00%                | 482            |
| 22                      | 342      | Stores Equipment   | -             | -                  | 4.00%                 | -              |
| 23                      | 343      | Tools, Ship & Garage Equipment   | -             | -                  | 5.00%                 | -              |
| 24                      | 344      | Laboratory Equipment   | -             | -                  | 10.00%                | -              |
| 25                      | 345      | Power Operated Equipment   | -             | -                  | 5.00%                 | -              |
| 26                      | 346      | Communication Equipment  | -             | -                  | 10.00%                | -              |
| 27                      | 347      | Miscellaneous Equipment  | 582           | -                  | 10.00%                | -              |
| 28                      | 348      | Other Tangible Plant   | -             | -                  | 0.00%                 | -              |
| 29                      |          | Subtotal General   | \$ 1,157,080  | \$ 422,507         |                       | \$ 20,898      |
| 30                      |          | Less: Non-depreciable Account(s) (L3)  | -             | -                  |                       | -              |
| 31                      |          | Depreciable Plant (L29-L30)  | \$ 1,157,080  | \$ 422,507         |                       |                |
| 32                      |          | Contributions-in-Aid-of-Construction (CIAC) Per Decision No. 54526 (1/28/1985) - Not Amortized | \$ 76,247     |                    |                       |                |
| 33                      |          | Composite Depreciation/Amortization Rate   | 4.95%         |                    |                       |                |
| 34                      |          | Less: Amortization of CIAC (L32 x L33)   |               |                    |                       | \$ 3,771       |
| 35                      |          | Depreciation Expense - STAFF [Col. (C), L29 - L34]   |               |                    |                       | \$ 17,127      |

| LINE NO. | DESCRIPTION          | [A]<br>COMPANY PROPOSED | [B]<br>STAFF ADJUSTMENT | [C]<br>STAFF RECOMMENDED |
|----------|----------------------|-------------------------|-------------------------|--------------------------|
| 36       | Depreciation Expense | \$ 37,195               | \$ (20,068)             | \$ 17,127                |

References:

Col [A]: MJR-4

Col [B]: Decision No. 70170 and updated Plant Schedules

Col [C]: MJR Testimony

CORDES LAKES WATER COMPANY  
Docket No. W-02060A-12-0356  
Test Year Ended December 31, 2011

Settlement MJR-18

OPERATING INCOME ADJUSTMENT #5 - PROPERTY TAXES

| LINE<br>NO. | Property Tax Calculation  | (C)<br>STAFF<br>AS ADJUSTED | STAFF<br>RECOMMENDED |
|-------------|---|-----------------------------|----------------------|
|             |   |                             |                      |
| 1           | Staff Adjusted Test Year Revenues - 2011                                  | \$ 420,536                  | \$ 420,536           |
| 2           | Weight Factor   | 2                           | 2                    |
| 3           | Subtotal (Line 1 * Line 2)  | 841,073                     | \$ 841,073           |
| 4           | Staff Recommended Revenue, Per Schedule MJR-1                             | 420,536                     | \$ 447,718           |
| 5           | Subtotal (Line 4 + Line 5)  | 1,261,609                   | 1,288,791            |
| 6           | Number of Years   | 3                           | 3                    |
| 7           | Three Year Average (Line 5 / Line 6)                                      | 420,536                     | 429,597              |
| 8           | Department of Revenue Multiplier  | 2                           | 2                    |
| 9           | Revenue Base Value (Line 7 * Line 8)                                      | 841,073                     | 859,194              |
| 10          | Plus: 10% of CWIP -   | -                           | -                    |
| 11          | Less: Net Book Value of Licensed Vehicles                                 | 2,171                       | 2,171                |
| 12          | Full Cash Value (Line 9 + Line 10, - Line 11)                             | 838,902                     | \$ 857,023           |
| 13          | Assessment Ratio  | 20.0%                       | 20.0%                |
| 14          | Assessment Value (Line 12 * Line 13)                                      | 167,780                     | \$ 171,405           |
| 15          | Composite Property Tax Rate   | 13.9638%                    | 13.9638%             |
| 16          | Staff Test Year Adjusted Property Tax (Line 14 * Line 15)                 | \$ 23,429                   | \$ -                 |
| 17          | Company Proposed Property Tax   | 18,187                      |                      |
| 18          | Staff Test Year Adjustment (Line 16-Line 17)                              | \$ 5,242                    |                      |
| 19          | Property Tax - Staff Recommended Revenue (Line 14 * Line 15)              |                             | \$ 23,935            |
| 20          | Staff Test Year Adjusted Property Tax Expense (Line 16)                   |                             | \$ 23,429            |
| 21          | Increase in Property Tax Expense Due to Increase in Revenue Requirement   |                             | \$ 506               |
| 22          | Increase to Property Tax Expense  |                             | \$ 506               |
| 23          | Increase in Revenue Requirement   |                             | 27,182               |
| 24          | Increase to Property Tax per Dollar Increase in Revenue (Line 22/Line 23) |                             | 1.861840%            |

CORDES LAKES WATER COMPANY  
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Test Year Ended December 31, 2011

Settlement MJR-19

OPERATING INCOME ADJUSTMENT #6 - TEST YEAR INCOME TAXES

| LINE<br>NO. | DESCRIPTION        | [A]<br>COMPANY<br>PROPOSED | [B]<br>STAFF<br>ADJUSTMENTS | [C]<br>STAFF<br>RECOMMENDED |
|-------------|--------------------|----------------------------|-----------------------------|-----------------------------|
| 1           | Income Tax Expense | \$ 45                      | \$ (1,689)                  | \$ (1,644)                  |

References:

Col [A]: Company Schedule E-2 Revised 9/24/2012

Col [B]: Col [C] - Col [A]

Col [C]: Schedule MJR-2, Line 43

CORDES LAKES WATER COMPANY  
Docket No. W-02060A-12-0356  
Test Year Ended December 31, 2011

Settlement MJR-20

OPERATING INCOME ADJUSTMENT #7 WATER TESTING

| <u>LINE</u><br><u>NO.</u> | <u>DESCRIPTION</u>    | <u>[A]</u><br><u>COMPANY</u><br><u>PROPOSED</u> | <u>[B]</u><br><u>STAFF</u><br><u>ADJUSTMENTS</u> | <u>[C]</u><br><u>STAFF</u><br><u>RECOMMENDED</u> |
|---------------------------|-----------------------|---|--|--|
| 1                         | Water Testing Expense | <u>\$ 1,806</u>                                 | <u>\$ 4,052</u>                                  | <u>\$ 5,858</u>                                  |

References:

Col [A]: Company Schedule E-2  
Col [B]: Col [C] - Col [A]  
Col [C]: Engineering Report

CORDES LAKES WATER COMPANY  
Docket No. WV-02060A-12-0356  
Test Year Ended December 31, 2011

Settlement MJR-21

OPERATING INCOME ADJUSTMENT #8 - NON-METERED REVENUE FEES

| LINE |                          | [A]<br>COMPANY<br>PROPOSED<br>9/24/2012 | [B]<br>STAFF<br>ADJUSTMENTS | [C]<br>STAFF<br>RECOMMENDED |
|------|--------------------------|---|-----------------------------|-----------------------------|
| NO.  | DESCRIPTION              |   |                             |                             |
| 1    | Misc income Net          | \$ 640                                  | \$ (640)                    | \$ -                        |
| 2    | Establishment            | -                                       | \$ 6,825                    | 6,825                       |
| 3    | Reconnection             | -                                       | \$ 1,045                    | 1,045                       |
| 4    | After Hours Reconnection | -                                       | \$ 150                      | 150                         |
| 5    | Re-Establishment         | -                                       | \$ 70                       | 70                          |
| 6    |                          | \$ 640                                  | \$ 7,450                    | \$ 8,090                    |

COMPANY  
Revised  
8/17/2012

|                          |       |
|--------------------------|-------|
| Misc Income Net          | \$ -  |
| Establishment            | 6,825 |
| Reconnection             | 1,045 |
| After Hours Reconnection | 150   |
| Re-Establishment         | 70    |

References:

Col [A]: Company Schedule A-2 (B)

Col [B]: Col [C] - Col [A]

Col [C]: Schedule Column A plus Column B

CORDES LAKES WATER COMPANY  
Docket No. W-02060A-12-0356  
Test Year Ended December 31, 2011

Settlement MJR-22

**OPERATING INCOME ADJUSTMENT #9 - INTEREST ON CUSTOMER DEPOSITS**

| LINE<br>NO. | DESCRIPTION                   | [A]<br><u>COMPANY<br/>PROPOSED</u> | [B]<br><u>STAFF<br/>ADJUSTMENTS</u> | [C]<br><u>STAFF<br/>RECOMMENDED</u> |
|-------------|-------------------------------|------------------------------------|-------------------------------------|-------------------------------------|
|             |                               |                                    |                                     |                                     |
| 1           | Interest on Customer Deposits | <u>\$ -</u>                        | <u>\$ 1,050</u>                     | <u>\$ 1,050</u>                     |

References:

Col [A]: Company Schedule A-2 (B)

Col [B]: Col [C] - Col [A]

Col [C]: MJR Testimony

CORDES LAKES WATER COMPANY  
Docket No. W-02060A-12-0356  
Test Year Ended December 31, 2011

Settlement MJR-23

OPERATING INCOME ADJUSTMENT #10 - RATE CASE EXPENSE

| LINE<br>NO. | DESCRIPTION       | [A]<br><u>COMPANY<br/>PROPOSED</u> | [B]<br><u>STAFF<br/>ADJUSTMENTS</u> | [C]<br><u>STAFF<br/>RECOMMENDED</u> |
|-------------|-------------------|------------------------------------|-------------------------------------|-------------------------------------|
|             |                   |                                    |                                     |                                     |
| 1           | Rate Case Expense | <u>\$ -</u>                        | <u>\$ 6,000</u>                     | <u>\$ 6,000</u>                     |

References:

Col [A]: Company Schedule E-2  
Col [B]: Col [C] - Col [A]  
Col [C]: MJR Surrebuttal Testimony

CORDES LAKES WATER COMPANY  
Docket No. W-02060A-12-0356  
Test Year Ended December 31, 2011

Settlement MJR-24

OPERATING INCOME ADJUSTMENT #11 - OUTSIDE ACCOUNTING SERVICES

| LINE |                               | [A]                 | [B]                  | [C]                  |
|------|-------------------------------|---------------------|----------------------|----------------------|
| NO.  | DESCRIPTION                   | COMPANY<br>PROPOSED | STAFF<br>ADJUSTMENTS | STAFF<br>RECOMMENDED |
| 1    | Outside Services - Accounting | \$ 3,660            | \$ 6,340             | \$ 10,000            |

References:

Col [A]: Company Schedule E-2

Col [B]: Col [C] - Col [A]

Col [C]: MJR Surrebuttal Testimony



CORDES LAKES WATER COMPANY  
Docket No. W-02060A-12-0356  
Test Year Ended December 31, 2011

Settlement MJR-25

OPERATING INCOME ADJUSTMENT #12 - BAD DEBT EXPENSE

| LINE |                              | [A]                 | [B]                  | [C]                  |
|------|------------------------------|---------------------|----------------------|----------------------|
| NO.  | DESCRIPTION                  | COMPANY<br>PROPOSED | STAFF<br>ADJUSTMENTS | STAFF<br>RECOMMENDED |
| 1    | Misc. Expense - Bank Charges | \$ 1,304            | \$ -                 | \$ 1,304             |
| 2    | Bad Debt Expense             | -                   | 2,528                | 2,528                |
| 3    | Total                        | <u>\$ 1,304</u>     | <u>\$ 2,528</u>      | <u>\$ 3,832</u>      |

References:

Col [A]: Company Schedule E-2  
Col [B]: Col [C] - Col [A]  
Col [C]: Settlement

CORDES LAKES WATER COMPANY  
Docket No. W-02060A-12-0356  
Test Year Ended December 31, 2011

Settlement MJR-26

OPERATING INCOME ADJUSTMENT #13 - PURCHASED POWER EXPENSE

| LINE |                 | [A]                 | [B]                  | [C]                  |
|------|-----------------|---------------------|----------------------|----------------------|
| NO.  | DESCRIPTION     | COMPANY<br>PROPOSED | STAFF<br>ADJUSTMENTS | STAFF<br>RECOMMENDED |
| 1    | Purchased power | \$ 31,723           | \$ 917               | \$ 32,640            |
| 2    |                 |                     |                      |                      |
| 3    | Total           | <u>\$ 31,723</u>    | <u>\$ 917</u>        | <u>\$ 32,640</u>     |

References:

Col [A]: Company Schedule E-2  
Col [B]: Col [C] - Col [A]  
Col [C]: Settlement

**RATE DESIGN**

| Monthly Usage Charge         | Present                     |          | -Proposed Rates- |      |
|------------------------------|-----------------------------|----------|------------------|------|
|                              | Rates                       | Company  | Staff            |      |
| 5/8" x 3/4" Meter            | N/A                         | N/A      | N/A              |      |
| 3/4" Meter                   | \$ 11.00                    | \$ 13.50 | \$ 11.75         |      |
| 1" Meter                     | 19.50                       | 24.50    | 19.50            |      |
| 1 1/2" Meter                 | 39.00                       | 48.75    | 39.25            |      |
| 2" Meter                     | 62.50                       | 78.00    | 62.50            |      |
| 3" Meter                     | 125.00                      | 156.00   | 125.00           |      |
| 4" Meter                     | 220.00                      | 275.00   | 195.00           |      |
| 6" Meter                     | 390.00                      | 485.00   | 390.00           |      |
| 8" Meter                     | N/A                         | N/A      | N/A              |      |
| 10" Meter                    | N/A                         | N/A      | N/A              |      |
| 12" Meter                    | N/A                         | N/A      | N/A              |      |
| Gallons included in Minimum  | 0                           | 0        | 0                |      |
| <u>Commodity Rate Charge</u> |                             |          |                  |      |
| <u>3/4" Meter</u>            |                             |          |                  |      |
| <u>Company</u>               |                             |          |                  |      |
| Tier 1                       | From 0 to 3,000 gallons     | 2.80     | 3.30             |      |
| Tier 2                       | From 3,001 to 8,000 gallons | 4.30     | 5.25             |      |
| Tier 3                       | Over 8,000 gallons          | 5.00     | 6.00             |      |
| <u>Staff</u>                 |                             |          |                  |      |
| Tier 1                       | From 0 to 3,000 gallons     |          |                  | 2.85 |
| Tier 2                       | From 3,001 to 8,000 gallons |          |                  | 4.25 |
| Tier 3                       | Over 8,000 gallons          |          |                  | 6.50 |
| <u>1" Meter</u>              |                             |          |                  |      |
| <u>Company</u>               |                             |          |                  |      |
| Tier 1                       | From 0 to 18,000 gallons    | 4.30     | 5.25             |      |
| Tier 2                       | Over 18,000 gallons         | 5.00     | 6.00             |      |
| <u>Staff</u>                 |                             |          |                  |      |
| Tier 1                       | From 0 to 10,000 gallons    |          |                  | 4.25 |
| Tier 2                       | Over 10,000 gallons         |          |                  | 6.50 |
| <u>1 1/2" Meter</u>          |                             |          |                  |      |
| <u>Company</u>               |                             |          |                  |      |
| Tier 1                       | From 0 to 43,500 gallons    | 4.30     | 5.25             |      |
| Tier 2                       | Over 43,500 gallons         | 5.00     | 6.00             |      |
| <u>Staff</u>                 |                             |          |                  |      |
| Tier 1                       | From 0 to 17,000 gallons    |          |                  | 4.25 |
| Tier 2                       | Over 17,000 gallons         |          |                  | 6.50 |
| <u>2" Meter</u>              |                             |          |                  |      |
| <u>Company</u>               |                             |          |                  |      |
| Tier 1                       | From 0 to 75,000 gallons    | 4.30     | 5.25             |      |
| Tier 2                       | Over 75,000 gallons         | 5.00     | 6.00             |      |
| <u>Staff</u>                 |                             |          |                  |      |
| Tier 1                       | From 0 to 26,000 gallons    |          |                  | 4.25 |
| Tier 2                       | Over 26,000 gallons         |          |                  | 6.50 |
| <u>3" Meter</u>              |                             |          |                  |      |
| <u>Company</u>               |                             |          |                  |      |
| Tier 1                       | From 0 to 160,000 gallons   | 4.30     | 5.25             |      |
| Tier 2                       | Over 160,000 gallons        | 5.00     | 6.00             |      |
| <u>Staff</u>                 |                             |          |                  |      |
| Tier 1                       | From 0 to 50,000 gallons    |          |                  | 4.25 |
| Tier 2                       | Over 50,000 gallons         |          |                  | 6.50 |
| <u>4" Meter</u>              |                             |          |                  |      |
| <u>Company</u>               |                             |          |                  |      |
| Tier 1                       | From 0 to 290,000 gallons   | 4.30     | 5.25             |      |
| Tier 2                       | Over 290,000 gallons        | 5.00     | 6.00             |      |
| <u>Staff</u>                 |                             |          |                  |      |
| Tier 1                       | From 0 to 75,000 gallons    |          |                  | 4.25 |
| Tier 2                       | Over 75,000 gallons         |          |                  | 6.50 |
| <u>6" Meter</u>              |                             |          |                  |      |
| <u>Company</u>               |                             |          |                  |      |
| Tier 1                       | From 0 to 530,000 gallons   | 4.30     | 5.25             |      |
| Tier 2                       | Over 530,000 gallons        | 5.00     | 6.00             |      |
| <u>Staff</u>                 |                             |          |                  |      |
| Tier 1                       | From 0 to 150,000 gallons   |          |                  | 4.25 |
| Tier 2                       | Over 150,000 gallons        |          |                  | 6.50 |

**RATE DESIGN**

Service Line and Meter Installation Charges

|                   | N/T      | N/T           | Service Line | Meter Installation | Total    |
|-------------------|----------|---------------|--------------|--------------------|----------|
| 5/8" x 3/4" Meter | N/T      | N/T           | N/T          | N/T                | N/T      |
| 3/4" Meter        | 520.00   | Same as Staff | 426.00       | 198.00             | 624.00   |
| 1" Meter          | 610.00   | Same as Staff | 486.00       | 246.00             | 732.00   |
| 1 1/2" Meter      | 855.00   | Same as Staff | 528.00       | 498.00             | 1,026.00 |
| 2" Meter          | 1,515.00 | Same as Staff | 720.00       | 1,098.00           | 1,818.00 |
| 3" Meter          | 2,195.00 | Same as Staff | 930.00       | 1,764.00           | 2,694.00 |
| 4" Meter          | 3,360.00 | Same as Staff | 1,332.00     | 2,700.00           | 4,032.00 |
| 6" Meter          | 6,115.00 | Same as Staff | 2,000.00     | 5,350.00           | 7,350.00 |

Service Charges

|   |         |         |         |
|---|---------|---------|---------|
| Establishment                                 | \$25.00 | \$30.00 | \$30.00 |
| Establishment (After Hours)                   | \$35.00 | \$40.00 | NT      |
| Reconnection (Delinquent)                     | \$15.00 | \$20.00 | \$20.00 |
| Reconnection (Delinquent) After Hours         | \$25.00 | \$30.00 | NT      |
| NSF Check                                     | \$12.50 | \$15.00 | \$15.00 |
| Meter Re-Read (If Correct)                    | \$10.00 | \$12.00 | \$12.00 |
| Meter Test (If Correct)                       | \$25.00 | \$30.00 | \$30.00 |
| Deferred Payment (per Month)                  | 1.5%    | 1.5%    | ***     |
| Deposit Amount                                | *       | *       | *       |
| Deposit Interest                              | *       | *       | *       |
| Re-Establishment (Within 12 Months)           | **      | **      | **      |
| Late Fee (per Month)                          | 1.5%    | 1.5%    | ***     |
| Road Cutting or Boring                        | Cost    | Cost    | Cost    |
| After Hours Service Charge (Customer Request) | N/T     | N/T     | \$35.00 |

NT = No Tariff

Monthly Service Charge for Fire Sprinkler

|                 |        |        |      |
|-----------------|--------|--------|------|
| 4" or Smaller   | \$0.00 | \$0.00 | **** |
| 6"              | 0.00   | 0.00   | **** |
| 8"              | 0.00   | 0.00   | **** |
| 10"             | 0.00   | 0.00   | **** |
| Larger than 10" | 0.00   | 0.00   | **** |

- \* Per Commission Rules (R14-2-403.B)
- \*\* Months off system times the minimum (R14-2-403.D)
- \*\*\* 1.5% on the unpaid balance per month
- \*\*\*\* 2.00% of Monthly Minimum for a Comparable Sized Meter Connection, but no less than \$10.00 per month. The Service Charge for Fire Sprinklers is only applicable for service lines separate and distinct from the primary water service line.

CORDES LAKES WATER COMPANY  
Docket No. W-02060A-12-0356  
Test Year Ended December 31, 2011

Settlement MJR-28

**TYPICAL BILL ANALYSIS**

General Service 3/4 - Inch Meter

Average Number of Customers: 1,291

| <u>Company Proposed</u> | <u>Gallons</u> | <u>Present Rates</u> | <u>Proposed Rates</u> | <u>Dollar Increase</u> | <u>Percent Increase</u> |
|-------------------------|----------------|----------------------|-----------------------|------------------------|-------------------------|
| Average Usage           | 4,169          | \$24.42              | \$29.54               | \$5.11                 | 20.92%                  |
| Median Usage            | 3,088          | \$19.78              | \$23.86               | \$4.08                 | 20.65%                  |

| <u>Staff Recommend</u> |       |         |         |        |       |
|------------------------|-------|---------|---------|--------|-------|
| Average Usage          | 4,169 | \$24.42 | \$25.27 | \$0.84 | 3.45% |
| Median Usage           | 3,088 | \$19.78 | \$20.67 | \$0.90 | 4.53% |

Present & Proposed Rates (Without Taxes)  
General Service 3/4 - Inch Meter

| <u>Gallons Consumption</u> | <u>Present Rates</u> | <u>Company Proposed Rates</u> | <u>% Increase</u> | <u>Staff Proposed Rates</u> | <u>% Increase</u> |
|----------------------------|----------------------|-------------------------------|-------------------|-----------------------------|-------------------|
| 0                          | \$11.00              | \$13.50                       | 22.73%            | \$11.75                     | 6.82%             |
| 1,000                      | 13.80                | 16.80                         | 21.74%            | 14.60                       | 5.80%             |
| 2,000                      | 16.60                | 20.10                         | 21.08%            | 17.45                       | 5.12%             |
| 3,000                      | 19.40                | 23.40                         | 20.62%            | 20.30                       | 4.64%             |
| 4,000                      | 23.70                | 28.65                         | 20.89%            | 24.55                       | 3.59%             |
| 5,000                      | 28.00                | 33.90                         | 21.07%            | 28.80                       | 2.86%             |
| 6,000                      | 32.30                | 39.15                         | 21.21%            | 33.05                       | 2.32%             |
| 7,000                      | 36.60                | 44.40                         | 21.31%            | 37.30                       | 1.91%             |
| 8,000                      | 40.90                | 49.65                         | 21.39%            | 41.55                       | 1.59%             |
| 9,000                      | 45.90                | 55.65                         | 21.24%            | 48.05                       | 4.68%             |
| 10,000                     | 50.90                | 61.65                         | 21.12%            | 54.55                       | 7.17%             |
| 15,000                     | 75.90                | 91.65                         | 20.75%            | 87.05                       | 14.69%            |
| 20,000                     | 100.90               | 121.65                        | 20.56%            | 119.55                      | 18.48%            |
| 25,000                     | 125.90               | 151.65                        | 20.45%            | 152.05                      | 20.77%            |
| 50,000                     | 250.90               | 301.65                        | 20.23%            | 314.55                      | 25.37%            |
| 75,000                     | 375.90               | 451.65                        | 20.15%            | 477.05                      | 26.91%            |
| 100,000                    | 500.90               | 601.65                        | 20.11%            | 639.55                      | 27.68%            |
| 125,000                    | 625.90               | 751.65                        | 20.09%            | 802.05                      | 28.14%            |
| 150,000                    | 750.90               | 901.65                        | 20.08%            | 964.55                      | 28.45%            |
| 175,000                    | 875.90               | 1,051.65                      | 20.07%            | 1,127.05                    | 28.67%            |
| 200,000                    | 1,000.90             | 1,201.65                      | 20.06%            | 1,289.55                    | 28.84%            |